



∞ Meta

# META Valuation

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FY2012 – PRESENT

Kilsaris Mera  
Rafael Nicolás Fermín Cota  
Baran Kayhan

 Euclid Technologies



# Valuation Summary

Meta, formerly known as Facebook, has undergone several cultural shifts to keep pace with the changing consumer behavior. It began as a desktop-focused company and later evolved into a mobile era as more people started accessing the internet through their phones.

Despite facing several challenges over the years, Meta has proven resilient and consistently bounced back. The company is unafraid to make big bets on businesses and investments it believes in, as shown by its acquisitions of Instagram, Oculus, WhatsApp, and, more recently, ScaleAI. It also integrates future technologies, especially AI, into its products and commits to significant investments when necessary.

Meta has shifted its focus to video as it has become a megatrend driving deeper engagement. The company has also identified private messaging as a growing opportunity for monetization, alongside payments and e-commerce. With its investments in AI, Meta is working to improve the efficiency of its recommendation systems, provide creators with better content-creation tools, and introduce new features that increase user engagement. In addition to enhancing its existing products, meta is also creating new platforms and products that will generate new revenue streams as deployment continues. These efforts position the company to expand beyond its core advertising business and capture growth in emerging areas.

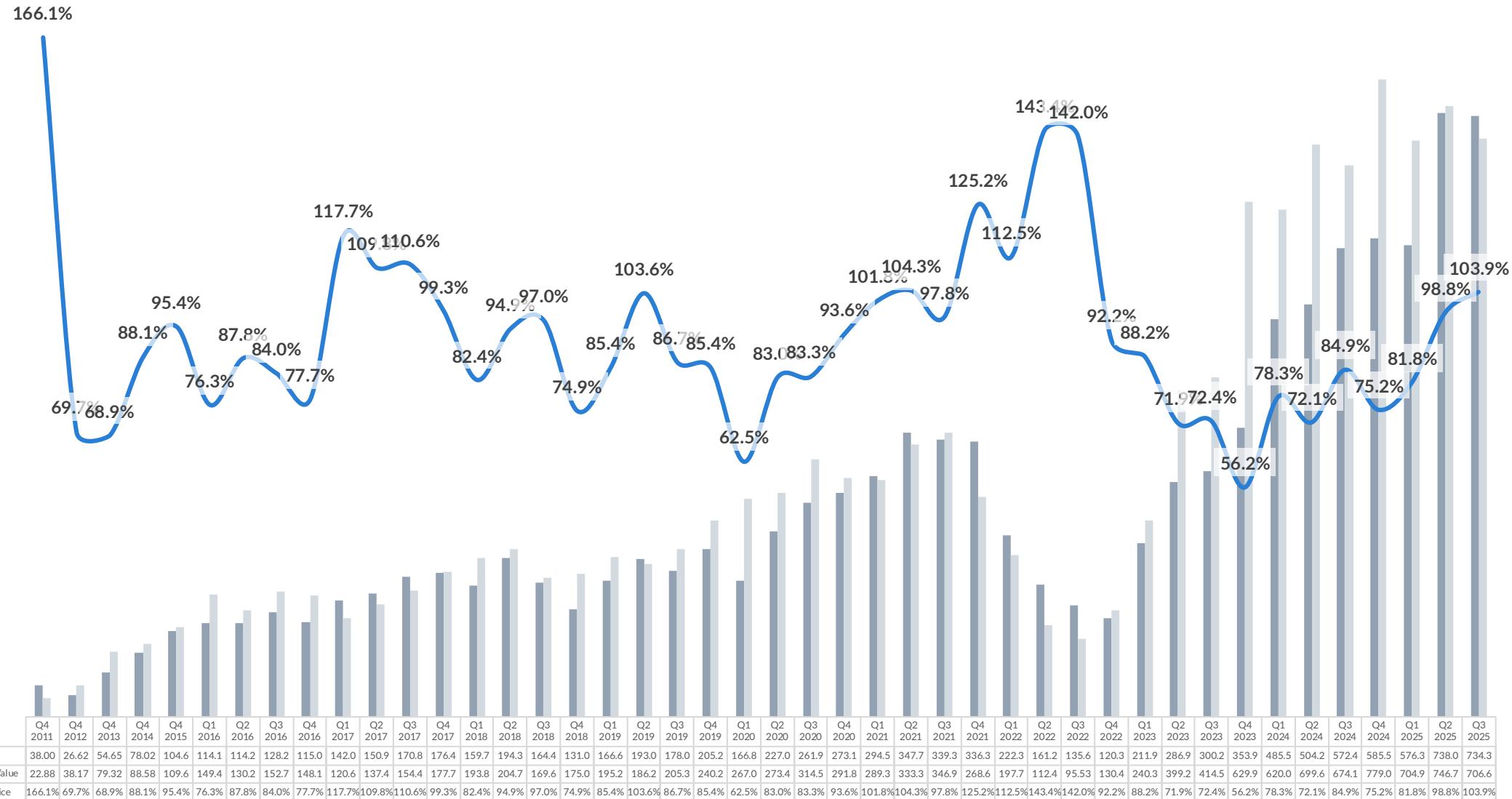
Meta is rethinking the role of the Metaverse through the lens of AI, aligning it with its broader mission to advance AI and work towards superintelligence across its products. The company sees glasses as the next major form factor

after phones, a perfect AI assistant that can see what you see and hear what you hear. Meta is actively deploying the Ray-Ban glasses and continues to invest in this area, showing their evolution around AI while supporting ongoing growth in Reality Labs.

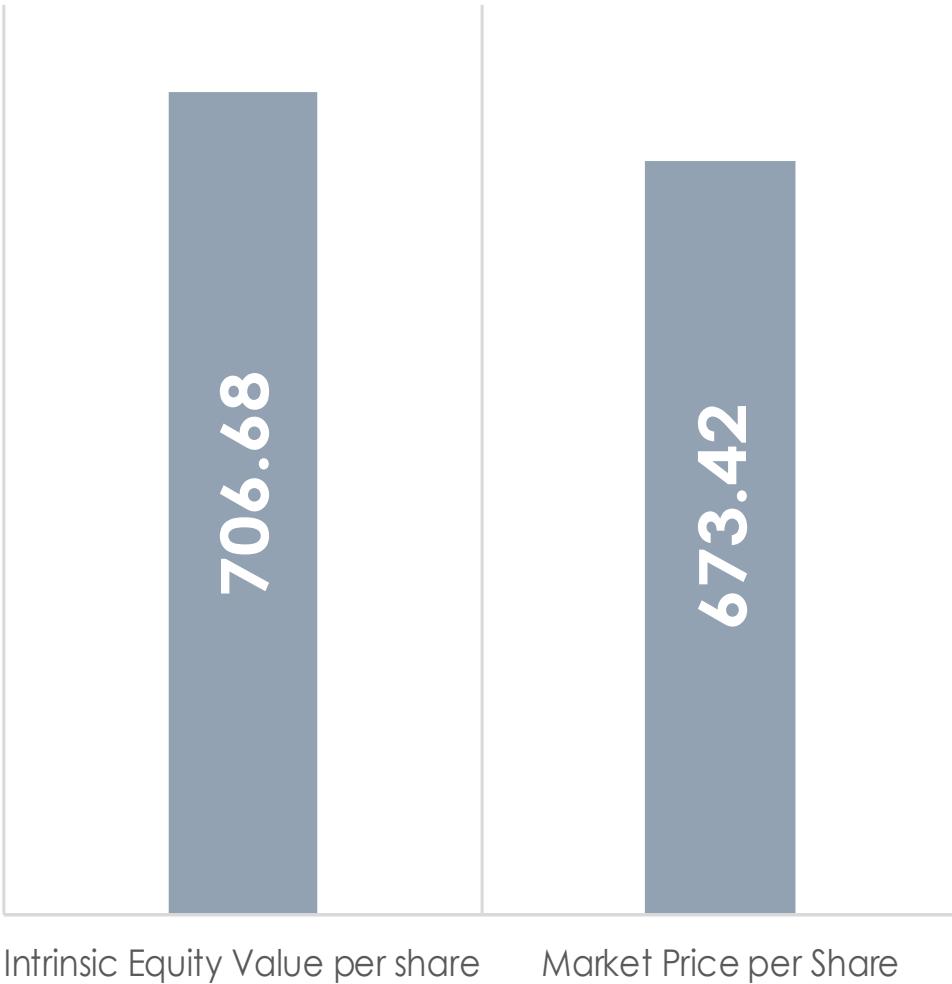
At the same time, Meta is the focus of numerous lawsuits both in and outside the United States. The company is under heavy scrutiny from governments, especially around issues of privacy and the safety of minors, and it continues to face backlash over its practices for managing misinformation. Macroeconomic factors, such as the discussion around tariffs and inflation, also pose challenges, as advertising budget are often the first to be reduced when the economy weakens. Meta additionally faces pressure from shareholder who question its high levels of investment in talent and infrastructure, especially as it remains committed to these costs despite not having a standalone AI revenue stream like other large tech companies with cloud businesses.

Meta's trajectory reflects a company that continually adapts to consumer behavior, technological change, and competitive pressures. Its resilience stems from a willingness to take bold risks, invest heavily in emergent technologies, and evolve its product ecosystem around long-term opportunities, most notably AI. While Meta faces substantial regulatory, legal, and macroeconomic challenges, it remains focused on innovation across its Family of Apps, new AI-driven platforms, and future form factors like AR glasses. Ultimately, Meta's commitment to reinvention positions the company to navigate uncertainty while pursuing new avenues for growth beyond its traditional advertising business.

# Intrinsic Value vs Real Value over the Years



# Value of the Company Today



**95.3%**  
PRICE AS % OF VALUE

*Market Close Date: December 05, 2025*

# FULL REPORT



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2012	2013	2014	2015
2016	2017	2018	2019
2020	2021	2022	2023
2024	2025		



## Business Overview

# Business Overview

## Reporting Segments

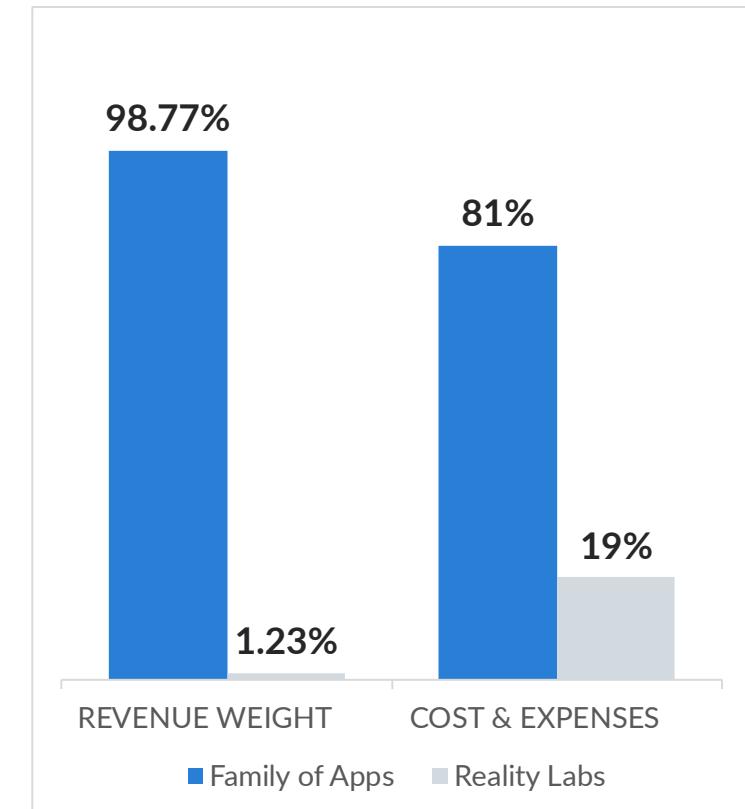
### Family of Apps (FoA)

- Generates almost all the revenue from selling advertising placements to marketers.
- Ads can appear in multiple places including Facebook, Instagram, Messenger and 3<sup>rd</sup> party apps/ websites.

### Reality Labs (RL)

- Reflects efforts to develop the metaverse.
- Generates revenue from sales of consumer hardware products, software and content.

AI investments is split between strengthening core products and developing new opportunities.



As of Q3 2025

# Business Overview

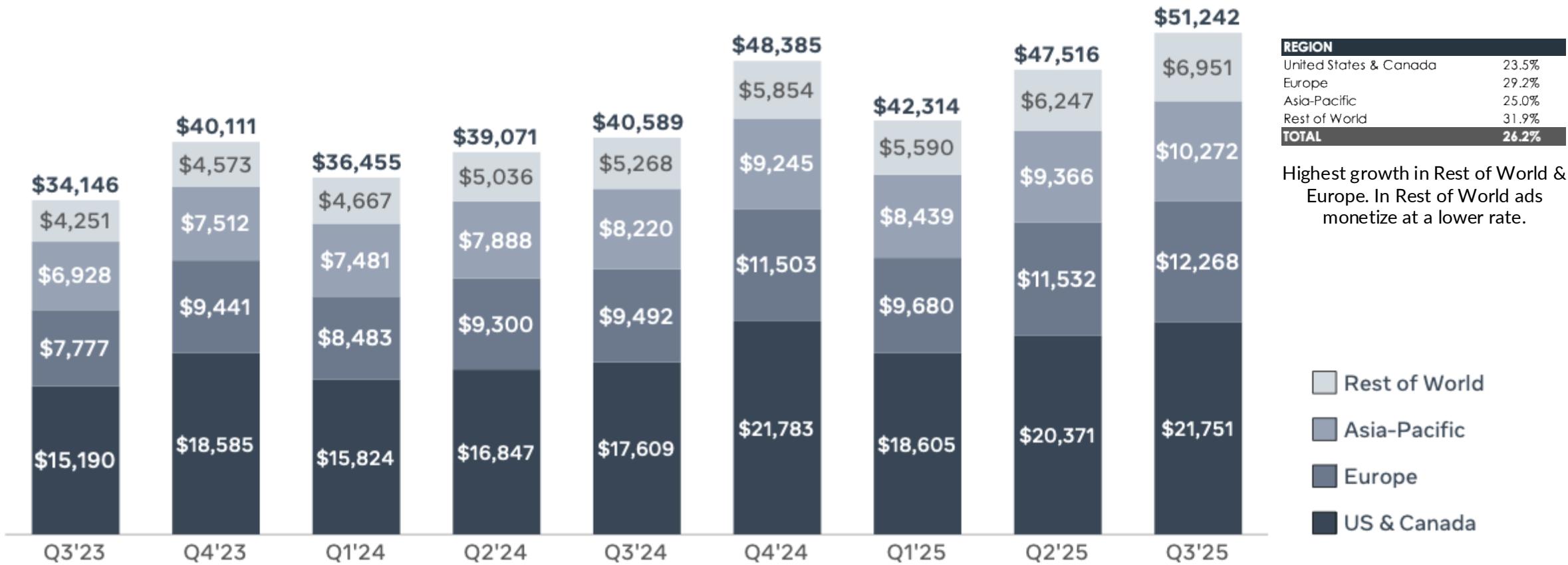
Segment Results (millions)

	<b>Q3'23</b>	<b>Q4'23</b>	<b>Q1'24</b>	<b>Q2'24</b>	<b>Q3'24</b>	<b>Q4'24</b>	<b>Q1'25</b>	<b>Q2'25</b>	<b>Q3'25</b>
Advertising	\$ 33,643	\$ 38,706	\$ 35,635	\$ 38,329	\$ 39,885	\$ 46,783	\$ 41,392	\$ 46,563	\$ 50,082
Other	293	334	380	389	434	519	510	583	690
<b>Family of Apps Revenue</b>	<b>33,936</b>	<b>39,040</b>	<b>36,015</b>	<b>38,718</b>	<b>40,319</b>	<b>47,302</b>	<b>41,902</b>	<b>47,146</b>	<b>50,772</b>
<b>Reality Labs Revenue</b>	<b>210</b>	<b>1,071</b>	<b>440</b>	<b>353</b>	<b>270</b>	<b>1,083</b>	<b>412</b>	<b>370</b>	<b>470</b>
<b>Total Revenue</b>	<b>\$ 34,146</b>	<b>\$ 40,111</b>	<b>\$ 36,455</b>	<b>\$ 39,071</b>	<b>\$ 40,589</b>	<b>\$ 48,385</b>	<b>\$ 42,314</b>	<b>\$ 47,516</b>	<b>\$ 51,242</b>
Family of Apps Operating Income	\$ 17,490	\$ 21,030	\$ 17,664	\$ 19,335	\$ 21,778	\$ 28,332	\$ 21,765	\$ 24,971	\$ 24,967
Reality Labs Operating (Loss)	(3,742)	(4,646)	(3,846)	(4,488)	(4,428)	(4,967)	(4,210)	(4,530)	(4,432)
<b>Total Income from Operations</b>	<b>\$ 13,748</b>	<b>\$ 16,384</b>	<b>\$ 13,818</b>	<b>\$ 14,847</b>	<b>\$ 17,350</b>	<b>\$ 23,365</b>	<b>\$ 17,555</b>	<b>\$ 20,441</b>	<b>\$ 20,535</b>
<b>Operating Margin</b>	<b>40 %</b>	<b>41 %</b>	<b>38 %</b>	<b>38 %</b>	<b>43 %</b>	<b>48 %</b>	<b>41 %</b>	<b>43 %</b>	<b>40 %</b>

Source: Q3 2025 Company Presentation

# Business Overview

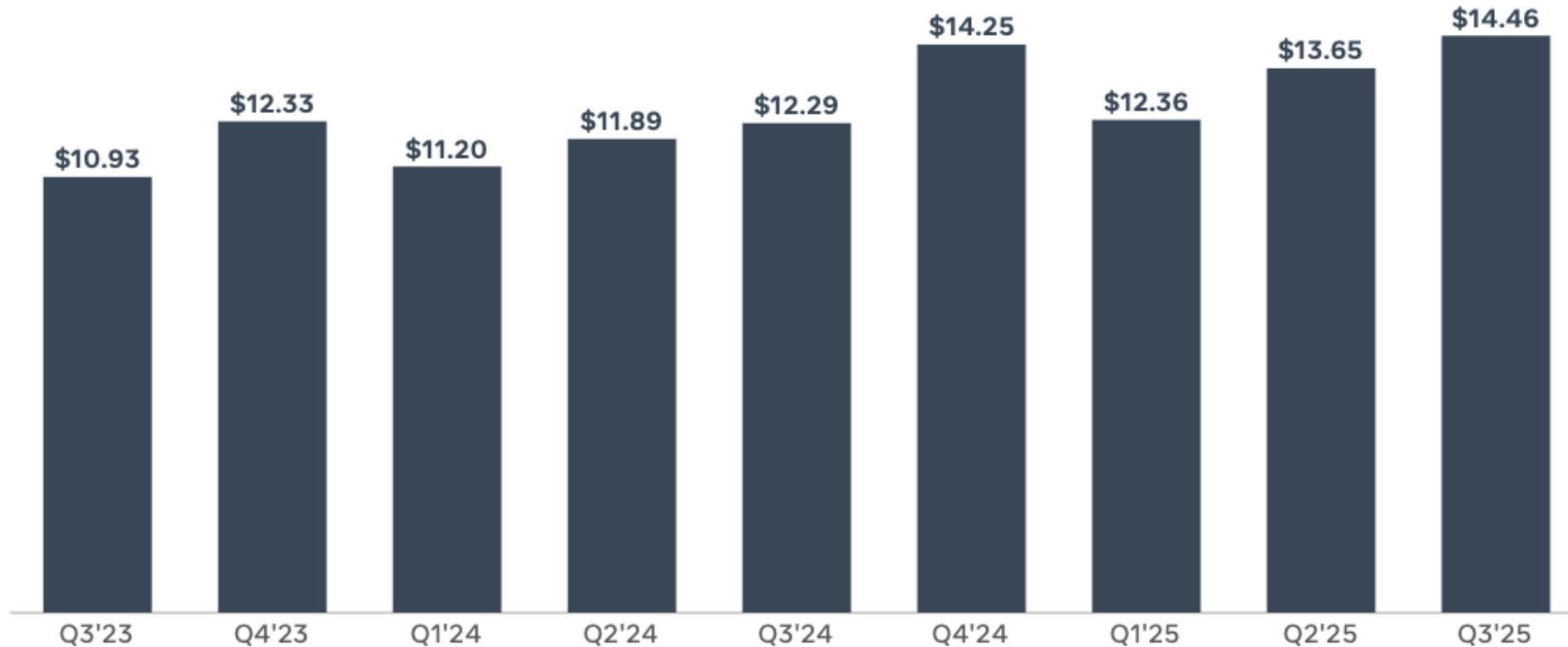
Revenue by User Geography (millions)



Source: Q3 2025 Company Presentation

# Business Overview

## Average Revenue per User (ARPP)



Source: Q3 2025 Company Presentation

# Industry Overview

## DIGITAL ADVERTISING

CAGR  
**15%**

### DEFINITION:

Digital advertising uses the internet to deliver marketing messages in various formats including digital video, search engine, social media, digital banner, digital audio, digital classifieds, connected TV, in-app, and influencer advertising.

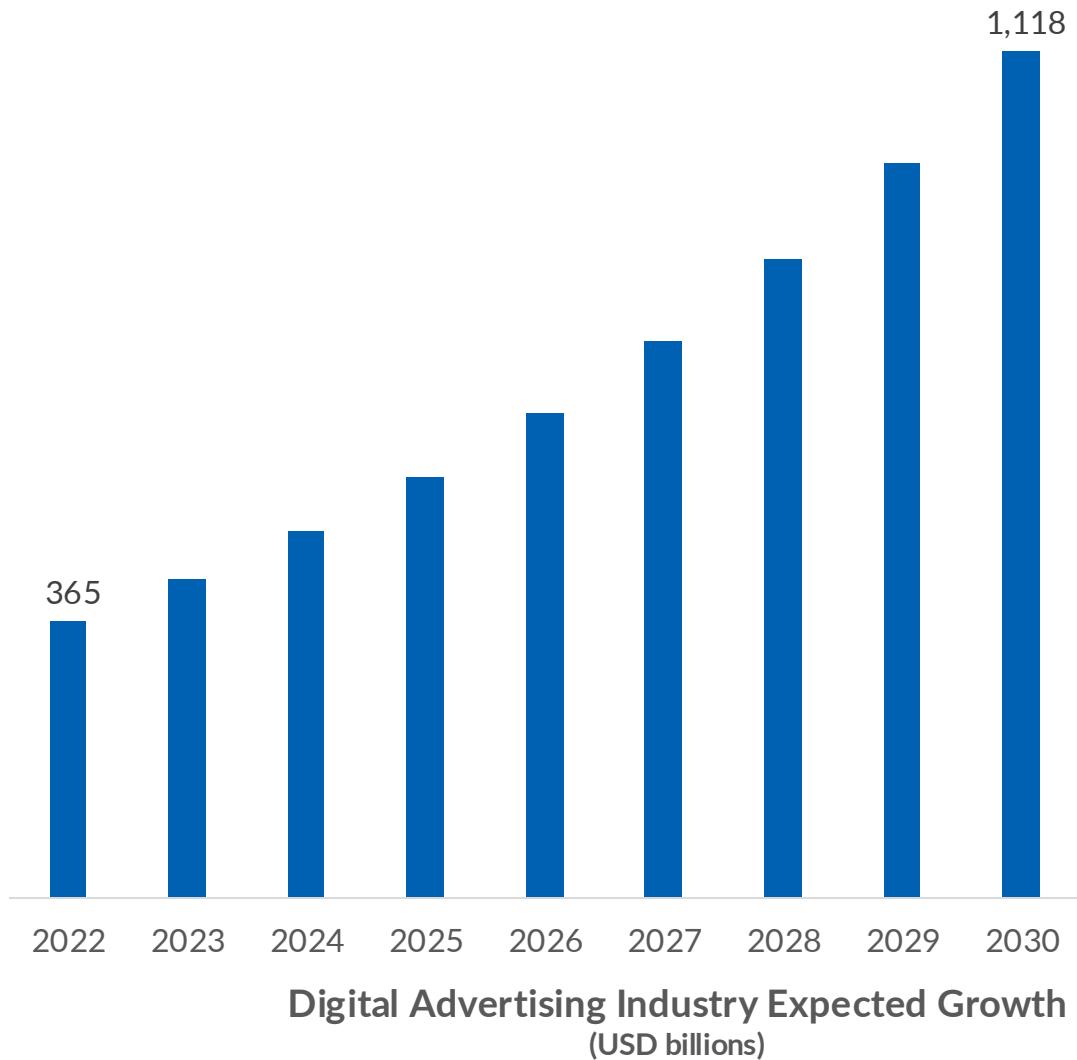
Became dominant advertising medium in 2018 as consumer behavior has shifted from offline to online.

Dominated by large tech companies including Alphabet, Meta Platforms, Microsoft, Amazon, Tencent, Baidu, and ByteDance.

Growth in the Video, Banner, Social Media, and Search Advertising markets is comparably higher than in the Classifieds market due to the rapid increase in social media consumption and online shopping.

The growth of the market is being further driven by integration of technologies, such as Artificial Intelligence (AI), analytics and machine learning which enable more effective targeting and personalized marketing strategies.

The market has a projected CAGR of 15% in average, reaching around USD \$1.1 trillion by 2030.



# Industry Overview

From LLMs to Multimodal and World Models

## DEFINITION:

Foundation models have evolved beyond text processing (LLMs) into Large Multimodal Models that natively reason across text, audio, video and code simultaneously. A new class of World Models is now emerging with systems designed to simulate physical dynamics, causality, and 3D environments. These models do not just retrieve data, they act as autonomous agents capable of planning, tool use, and complex reasoning to solve problems with little and sometimes without human intervention.



## USE CASES



### Agentic AI & Reasoning

- Autonomous Workflows: agents that plan, code, and debug software independently
- Computer Use: Ai that controls desktop interfaces to perform admin tasks.
- Chain of Thought: solving complex math and logic problems.



### World Models & Simulation

- Physics Simulations: generating video that adheres to real-world physics for training robots/ cars.
- Digital Twins: creating interactive 3D environments from 2D prompts.
- Causality: predicting "what happens next" in a video sequence.



### Native Multimodality

- Real-Time Voice: speech-to-speech translation with emotional intonation.
- Video context: uploading hours of video for the Ai to analyze, search, and summarize instantly.



### Scientific Discovery

- Material Synthesis: predicting new crystal structures.
- Biology: simulating protein folding and drug interaction.
- Hypothesis Generation: Ai that proposes and simulates lab experiments.



### Embodied Ai (Robotics)

- Vision-Language-Action (VLA): Robots learning tasks by watching video demos.
- General purpose bots: one brain controlling multiple types of robot hardware.



### Enterprise Customization

- Small Language Models: running high-performance AI locally on laptops/ phones.
- RAG Agents: AI that searches internal company data to answer queries with citations.

# Industry Overview

## DIGITAL ADVERTISING

### IMPACT OF AI

Artificial Intelligence is being used by all the big players to make advertising more engaging and efficient, producing better results and higher advertiser ROI through higher conversions using the same ad dollars. It also helps creates more ad inventory by determining the best moments and places to show ads considering preserving the best



*Image created using AI | Prompt: AI & Social Media*

Sources: [Lean Summit](#) | [Forbes](#)

### KEY BENEFITS OF USING AI

More precise audience segmentation

Easier ad creation and dynamization

Better ad placement

Increased security and privacy

# Industry Overview

## THE METAVERSE + AR/VR



Image created using AI | Prompt: The Metaverse + AR/VR

- The metaverse remains a massive and rapidly expanding global opportunity – particularly as AR/VR hardware, enterprise “digital twin” use cases, immersive collaboration, and spatial-computing services continue scaling.
- However, the market is evolving. Much of the growth is driven by augmented reality (AR), enterprise/industrial adoption, and services, rather than purely social metaverse platforms.
- As AR becomes more mainstream, wearables and “smart glasses” – especially AI-enhanced devices – are increasingly central to the next-gen form factor for spatial computing and the metaverse.

## SECTOR OUTLOOK

The global metaverse market (combining AR/VR, spatial computing, digital twin, and immersive platforms) was estimated at roughly USD 105.4B in 2024 and is projected to reach about USD 936.6B by 2030 (~46.4% CAGR from 2025-2030).<sup>1</sup>

The broader augmented reality (AR) market – a major component of the metaverse ecosystem – was estimated at USD 83.65 billion in 2024 and is expected to surge to ~USD 599.6 billion by 2030 (CAGR ~37.9%).<sup>2</sup>

Enterprise and industrial metaverse applications (digital twins, AR/VR for manufacturing, training, industrial IoT) are growing rapidly: the “industrial metaverse” was valued at about USD 34.4 billion in 2024, with forecasts reaching USD 181.0 billion by 2030 (CAGR ~32%).<sup>3</sup>

The AR/VR / mixed-reality (XR) segment is among the fastest-growing tech sectors globally; one recent forecast estimates the combined VR/AR market at roughly USD 20.4 billion in 2025, with growth to ~USD 85.6 billion by 2030 (CAGR ~33.2%).<sup>4</sup>

# Industry Overview

THE METAVERSE + AR/VR

Companies are racing to develop the next technology platform



Meta RayBan Gen 2

- Smart Glasses/ AR Glasses



XREAL One Pro

- AR glasses / XR glasses



Viture Luma Pro

AR glasses / XR glasses



Samsung Galaxy XR

Mixed Reality (MR) headset / XR



Meta Quest 3

Standalone VR / Mixed Reality headset



HTC Vive Focus Vision

VR / Professional VR headset



Varjo XR-4

Premium XR / enterprise headset



Apple Vision Pro

Mixed Reality headset / XR

VALUATION YEAR

# FY2025

January – December 2025





FISCAL YEAR  
**2025**

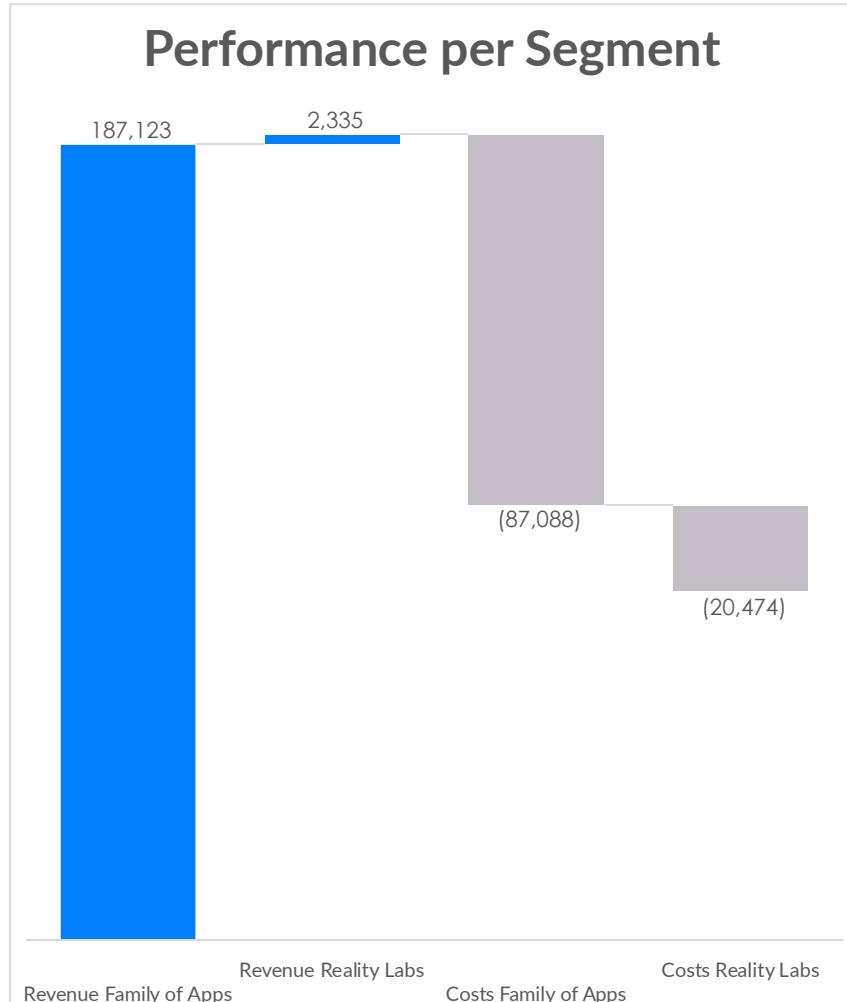
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# **Q3 Results**

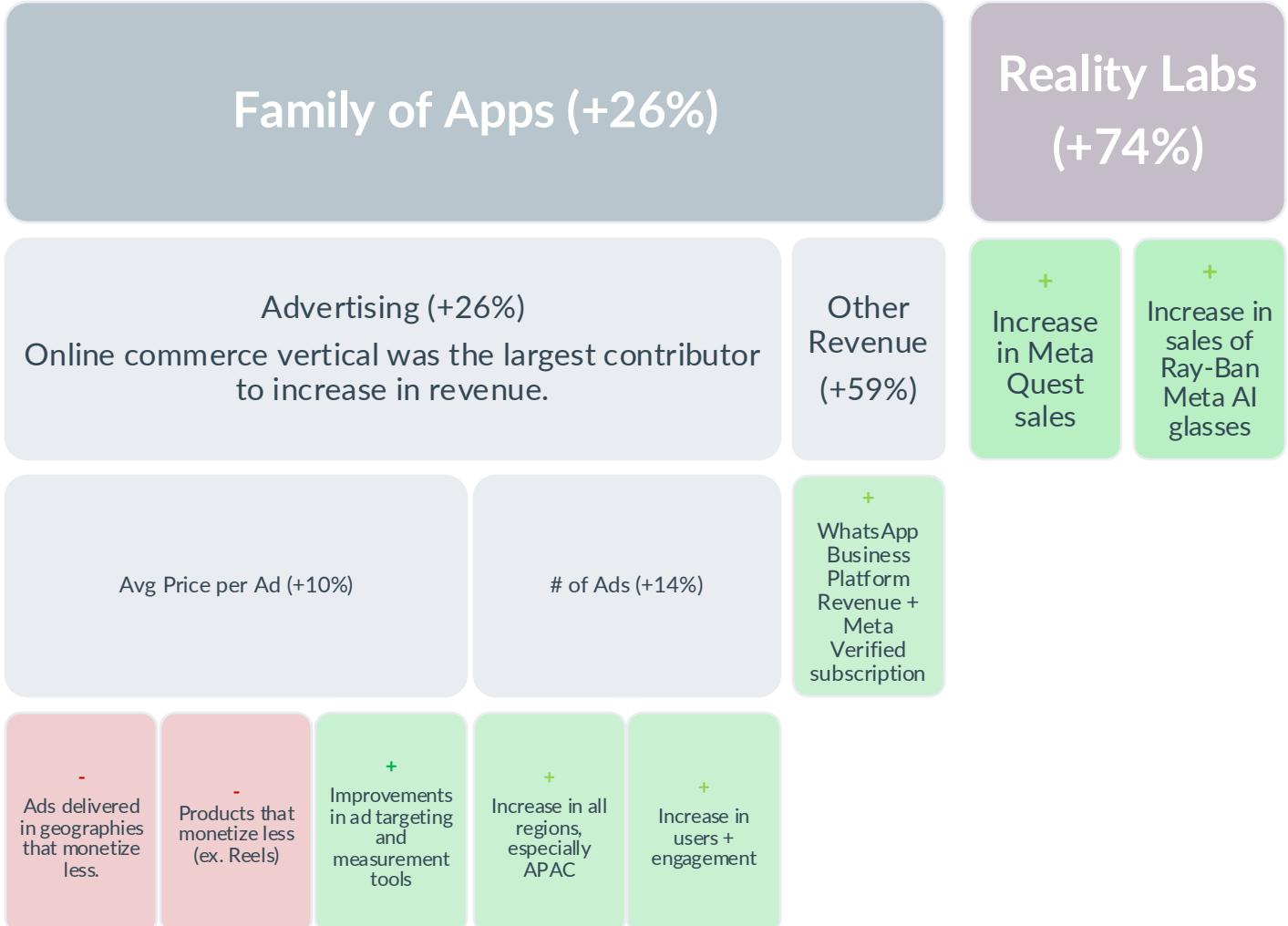
July – September 2025

# Narrative | Segment Drivers

FY2025 | Q3



MARGINS	FoA	53.5%
	RL	-776.8%



# Narrative | General Information

FY2025 | Q3

## COMPANY OUTLOOK

- Meta is making huge investments in artificial intelligence, betting on a large future opportunity for the company and directing resources toward both talent and infrastructure.
- Meta is front-loading massive compute capacity to be prepared for the earliest possible arrival of superintelligence, with the understanding that if superintelligence arrives later, the excess compute will be used to accelerate the core business.
- Headcount rose in Q3, with hiring concentrated in AI, infrastructure, monetization, and regulatory roles.
- Meta also signaled that 2026 expenses and capex will accelerate meaningfully due to rapidly expanding compute requirements and increased cloud commitments.
- In order to increase flexibility in planning for infrastructure, Meta has entered joint ventures and cloud agreements to support its datacenter buildout.
- Meta created the Hyperion Data Center joint venture with Blue Owl, with Blue Owl owning 80% and Meta retaining 20%. Meta entered 4-year initial operating leases for all JV facilities, with options to extend and a residual value guarantee to offer financial and strategic flexibility.
- Following Q3, Meta added new third-party cloud commitments to expand compute capacity, reflecting a shift toward a more diversified and flexible infrastructure strategy.
- Meta is already seeing meaningful results from its AI investments in its core product systems, and it plans to continue expanding the use of AI to improve efficiency, engagement, and advertiser outcomes.
- AI-powered recommendations drove a 5% increase in time spent on Facebook and a 10% increase on Threads in Q3.
- Meta is unifying its ads ranking models into simpler, more general systems, and its end-to-end AI ad stack has reached a \$60B annual run rate.
- The company is working toward a single unified AI system that will operate across all apps and advertising systems.
- Lattice, Meta's unified ads architecture, continues consolidating models and improving performance, replacing roughly 100 legacy models and generating a nearly 3% lift in conversions for app-ads after its Q3 rollout.
- The Andromeda ads model produced a 14% improvement in ads quality across Facebook Feed, Reels, and Marketplace in Q3, with Instagram rollout upcoming.
- GEM, Meta's large-scale recommendation model, is now four times more efficient than the original ranking models and is expected to reach full coverage of all major Facebook and Instagram surfaces by Q4.
- Time spent across Instagram and Facebook is growing double digits in the United States, driven by video and recommendation improvements.
- Meta plans to integrate LLMs to enhance content understanding through more precise labeling and retrieval, improving the relevance of recommendations.
- Reels and video continue to be major drivers of engagement, and Meta increasingly sees AI-generated and AI-enhanced content as central to the future of engagement and ad inventory.
- Reels video time spent on Instagram grew 30% year-over-year, and Reels now carries a \$50B annual revenue run-rate.
- Meta describes a shift into a third era of content, AI-generated content, which will greatly expand the total amount of content available on its platforms.
- Meta AI has surpassed 1B monthly active users, with momentum expected to grow as frontier models are introduced.
- Meta launched Vibes, its AI media creation tool, with fast-growing retention and more than a tenfold increase in media generation since launch.
- Threads daily actives surpassed 150M in Q3, marking a new scale milestone.
- Business AI and business messaging remain major future revenue opportunities for Meta, and the company is seeing strong early traction.
- Business AI now enables millions of automated conversations and is viewed internally as a key long-term revenue driver.
- Business messaging revenue continues to grow rapidly, with click-to-WhatsApp ads increasing 60% year-over-year.
- Meta expanded access in Q3 across Mexico and the Philippines while beginning early rollout in the United States.
- Reality Labs investments continue, with focus increasingly shifting toward AI-enabled glasses, which Meta views as the next major computing form factor.
- The AI glasses lineup is performing extremely well, with the Ray-Ban Meta Display glasses selling out within 48 hours of launch.
- Reality Labs revenue increased driven by early retailer stocking of Quest devices for the holiday season and stronger AI glasses sales.
- Meta noted that Reality Labs revenue will decline year-over-year in Q4 due to the pull-forward effect of this stocking that occurred in Q3 instead of Q4.
- A one-time \$15.93B tax charge from new U.S. tax legislation pushed the effective tax rate to 87%.
- Meta recorded higher legal expenses in Q3 due to new charges.
- Infrastructure operating costs rose in Q3 as Meta expanded its data center fleet, incurred higher depreciation, and increased its use of third-party cloud resources compared with Q2 levels.

# Narrative | General Information

FY2025 | Q2

## OTHER RELEVANT INFORMATION

- Meta is pursuing AI content licensing agreements with media companies to secure training data, positioning itself as more cooperative with publishers than rivals already facing lawsuits and backlash.[591](#)
- Meta unveiled new AI-enabled smart glasses at Meta Connect 2025, but failed live demos exposed execution risk, even as the company reinforced smart glasses as its primary mass-market AI and AR entry point.[592](#)
- Meta's long-term wearable strategy emphasizes neural interfaces and AI-driven communication, framing smart glasses—not VR headsets—as the path to everyday ambient computing.[593](#)
- Meta is committing massive capital to AI infrastructure and data centers in pursuit of advanced AI and superintelligence, despite analyst concerns that spending may outpace near-term demand.[594](#)
- Meta laid off roughly 600 employees in its AI division while protecting its most advanced research units, signaling a strategic reset focused on execution efficiency rather than retreat from AI investment.[595](#)
- Meta continues aggressive recruitment of elite AI talent and reorganized efforts under "Superintelligence Labs," reinforcing ambitions to lead next-generation AI development.[596](#)
- Meta is competing head-on with Google, Amazon, Microsoft, and Salesforce in AI-driven advertising, using AI agents to automate campaign planning, buying, and performance measurement.[597](#)
- Google's ad-tech antitrust pressures indirectly benefit Meta, as market disruption and regulatory scrutiny may weaken incumbents and reshape advertising standards.[598](#)
- Meta faces expanding regulatory obligations alongside peers, including new requirements to warn minors about mental health risks tied to social media use.[599](#)
- The documented decline of the open web strengthens Meta's closed-platform model, where content discovery, engagement, and monetization are controlled internally.[600](#)
- Publisher lawsuits against Google over AI summaries highlight a strategic opening for Meta, which is proactively negotiating licensing rather than unilaterally deploying AI content usage.[601](#)
- Enterprise AI agents remain unreliable and labor-intensive, suggesting Meta's AI monetization—particularly outside advertising—may take longer to scale than headline capabilities imply.[602](#)
- Apple's pivot toward smart glasses validates Meta's early strategic bet on AI wearables, intensifying competition while confirming the category's long-term importance.[603](#)
- Meta's AI and hardware ambitions are unfolding amid rising geopolitical and regulatory uncertainty, which may influence partnerships, data access, and capital deployment.[604](#)
- Yann LeCun announced his departure from Meta, marking a significant leadership change for the company's AI research organization and raising questions about continuity in Meta's long-term AI strategy.[605](#)
- Perplexity's advertising and commerce initiatives are struggling, with slow ad approvals and limited shopping functionality constraining revenue growth and monetization.[606](#)
- Amazon launched generative-AI tools to automate ad creation, targeting small and medium-sized businesses to expand advertising revenue and simplify campaign setup.[607](#)
- Amazon introduced agentic AI across its seller tools, positioning AI as an always-on assistant for inventory management, compliance, account health, and advertising creation.[608](#)
- Google integrated its Gemini AI directly into Chrome, signaling that AI-powered browsers are moving into the mainstream consumer experience.[609](#)
- Microsoft is building an AI marketplace for publishers, shifting away from upfront licensing toward usage-based compensation for AI-driven content consumption.[610](#)
- Amazon is testing AI-powered AR glasses for delivery drivers, designed to improve efficiency, safety, and hands-free navigation during routes.[611](#)
- Valve introduced a redesigned VR headset focused on practicality, positioning VR as an extension of PC gaming rather than a niche experimental platform.[612](#)
- TikTok surpassed 200 million users in Europe, even as it faces ongoing regulatory scrutiny, fines, and political pressure.[613](#)
- The U.S. and China reached a framework deal on TikTok, aiming to keep the app operational under American ownership while negotiations continue.[614](#)
- YouTube expanded AI tools and monetization options for creators, reinforcing its central role in the creator economy and increasing platform stickiness.[615](#)

# Assumptions

FY2025 | Q3

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	189,458	20.00%	3.74%	3.74%	<p>Meta's revenue outlook remains strong, driven by its dominant position in digital advertising and ongoing improvements to its recommendation systems. Business messaging is a key focus, with AI agents in testing for customer service and sales.</p> <p>Meta is also investing steadily in AR and VR, with its Ray-Ban smart glasses performing well. In the short-term, we expect to maintain the same growth rate as previous valuations as Meta continues to deliver consistent ROI and is the first choice for many advertisers.</p>
OPERATING MARGIN	48.11%	30.00%	50.00%	50.00%	<p>We maintained our assumptions for growth phase margins, anticipating lower margins in this phase as Meta continues its aggressive investments in future bets.</p> <p>Over time, we expect margins to increase, aligning with current levels as the company improves efficiency and further monetizes additional revenue streams.</p>
TAX RATE	30.43%	13.00%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.70	RIR =	26.30%	Placed sales to capital average of 2022 as it was an investment year to represent the investment phase that Meta is entering to support its AI efforts. Increased to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	20.94%	Marginal ROIC =	35.37%	14.22%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.62%	9.22%	9.22%	Increased WACC vs previous quarter as Meta faces a difficult regulatory environment as well as some internal instability due to all the changes regarding talent and investments in AI.

# NUMBERS

## FY2025 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	227,350	44.49%	13.00%	87,999	54,131	33,868
2	272,820	40.87%	13.00%	97,001	64,957	32,044
3	327,383	37.25%	13.00%	106,083	77,948	28,134
4	392,860	33.62%	13.00%	114,918	93,538	21,380
5	471,432	30.00%	13.00%	123,044	112,246	10,798
6	550,388	50.00%	15.80%	231,713	52,637	179,076
7	624,668	50.00%	18.60%	254,240	49,520	204,720
8	688,659	50.00%	21.40%	270,643	42,661	227,982
9	736,810	50.00%	24.20%	279,251	32,101	247,150
10	764,367	50.00%	27.00%	278,994	18,371	260,623
<b>Terminal Value</b>	<b>792,954</b>	<b>50.00%</b>	<b>27.00%</b>	<b>289,428</b>	<b>76,110</b>	<b>213,318</b>

The Value	
Terminal value	3,890,981
PV(Terminal value)	1,299,223
PV (CF over next 10 years)	541,869
<b>Value of operating assets</b>	<b>1,841,092</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	44,448
<b>Value of firm</b>	<b>1,885,540</b>
- Debt value of lease	(28,199)
- Total Interest Bearing Debt	(51,060)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(25,074)
<b>Market Value of Equity</b>	<b>1,781,207</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,781,207</b>
Number of shares (primary)	2,521
<b>Intrinsic Equity Value per share</b>	<b>706.68</b>



**104%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2025**

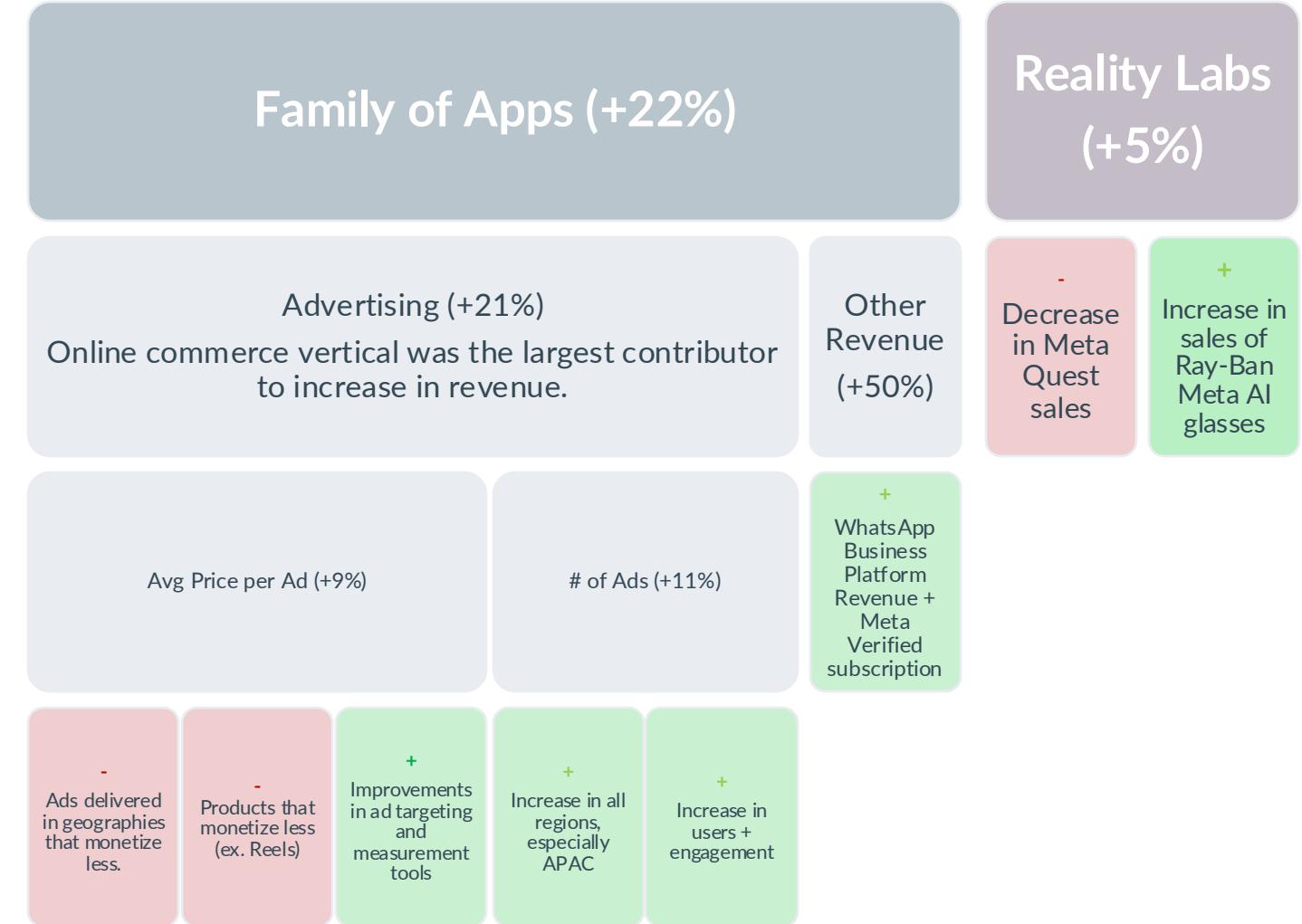
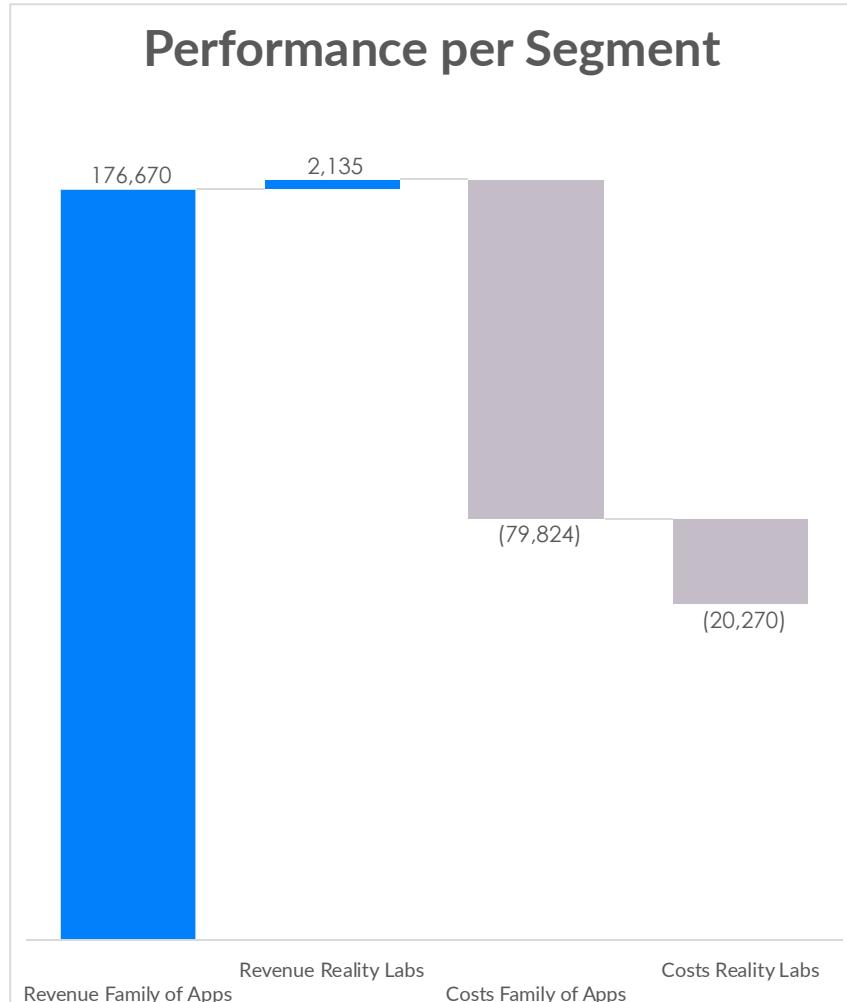
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# **Q2 Results**

April – June 2025

# Narrative | Segment Drivers

FY2025 | Q2



MARGINS	FoA	54.8%
	RL	-849.4%

# Narrative | General Information

FY2025 | Q2

## COMPANY OUTLOOK

- In June 2025, Meta completed an investment in Scale AI by acquiring a non-voting minority of its outstanding equity.
- Meta approved a plan to dispose of certain data center assets and reclassified \$2.04 B of these assets as held for sale – no loss was recognized upon reclassification as these assets are expected to be disposed of within the next twelve months through a contribution to a third party for the purpose of co-developing data centers. The total held for sale as of June 30 were \$3.26 B.
- Total expenses expected to increase as Meta scales up infrastructure fleet and adds technical talent in priority areas.
- Meta currently expects another year of significant capital expenditure dollar growth as they aggressively pursue opportunities to bring additional capacity online to meet their AI efforts and business operations.
- Meta continues to face an active regulatory environment, especially in the EU where they are still expecting a feedback on LPA where the EC may seek to impose further modifications that would result in a materially worse user and advertiser experience.
- Meta continues to focus on its 5 main opportunities:
  - Advertising: expanded their recommendation model for ads to new surfaces and improved performance by using more signals and longer context increasing ad conversion rates.
  - More engaging experiences: AI is improving ability to show people content that they'll find more interesting + incorporating AI video editing tools (Edits) to help creators make more engaging content.
  - Business Messaging: currently integrating business AIs into ads + directly in e-commerce websites.
  - Meta AI: have seen engagement grow as models improve – expect next generation model to further increase adoption.
  - AI Devices: Meta AI use growing with Ray-Ban glasses. Launched new model with Oakley with a sport focus. Quest use also increased with cloud gaming + continue to see broader use cases with media and web-browsing contributing a significant portion of engagement.
- Revenue Drivers: Engagement + Monetization Efficiency.
  - Engagement: driving growth in DAUs through stronger video traction, pushing fresher content, and advanced recommendation models powered by LLMs and Llama, enhancing discovery and reducing bugs.
  - Monetization Efficiency: ad performance is improving with advanced retrieval and ranking models, broader adoption of AI-powered Advantage+ and creative tools, strong business messaging growth and new omnichannel solutions lowering costs and boosting conversions.
- Meta is building turnkey Business AI Agents that use business data to drive conversions across all platforms (messaging, ads, and websites), expanding from early test in Mexico and the Philippines to broader rollout later this year.

# Narrative | General Information

FY2025 | Q2

## OTHER RELEVANT INFORMATION

- Ad platforms like Meta, Google and Amazon are more resilient as advertisers who are cutting budget favor platforms that drive sales.<sup>573</sup>
- Snap launched sponsored AI lenses, letting user insert themselves into branded scenes for real-time, interactive engagement – focusing on immersive experiences over static ads.<sup>574</sup>
- Tik reassured advertisers of its future despite US ban risk, stressing cultural influence and new ad tools amid legal and competitive pressures.<sup>575</sup>
- TikTok launched AI Alive, a Story Camera tool that turns photos into animated videos with effects, labeled and safety-checked as AI-generated.<sup>576</sup>
- Ireland fined TikTok \$600M for sending user data to China without safeguards, ordering transfers halted in six months; TikTok will appeal, citing newer protections.<sup>577</sup>
- The EU may fine TikTok up to 6% of global revenue for lacking an ad library under the DSA, while also probing privacy and election issues.<sup>578</sup>
- YouTube is prioritizing subscriptions—now over 125M—as a faster-growing revenue stream than ads, despite hurdles in converting free users and sharing revenue with creators.<sup>579</sup>
- Meta hired top Apple AI execs like Frank Chu while reorganizing teams and funding Superintelligence Labs, underscoring Apple's struggles to keep pace and reliance on third-party AI for Siri.<sup>580</sup>
- China seeks AI dominance by exporting tech and setting standards, using open-source ecosystems and talent mobility to reshape the global tech landscape amid US trade protectionism.<sup>581</sup>
- Moonshot AI's open-source Kimi K2 surpasses GPT-4 in coding and autonomous tasks, with competitive pricing and advanced agentic features, marking a major shift in AI competition.<sup>582</sup>
- Alibaba has become a leader in open-source AI, surpassing Meta's Llama and DeepSeek. Once struggling with adoption, its Qwen models now power internal units and serve 290,000+ external customers. By offering cost-effective solutions and fostering collaboration, Alibaba is well-positioned to challenge U.S. tech giants.<sup>583</sup>
- Meta CEO Mark Zuckerberg secured a \$14B deal for a 49% stake in Scale AI, gaining protections and influence over its future. Scale CEO Alexander Wang will join Meta while retaining sway at Scale, as concerns grow over Scale's performance and customer ties.<sup>584</sup>
- AI researchers now command NBA-level pay, with offers up to \$250M over four years. Fierce competition among Meta, OpenAI, and Google has turned hiring into a talent war, as scarce experts leverage their power. Meta's aggressive tactics, including direct outreach from Zuckerberg, underscore the stakes.<sup>585</sup>
- Big Tech's high salaries and reverse acquisitions give short-term AI advantages but risk eroding Silicon Valley's startup culture, leaving employees without rewards and discouraging future talent. This could thin the startup talent pool and threaten long-term sustainability for VCs and tech giants alike.<sup>586</sup>
- The EU fined Apple €500M and Meta €200M for violating the Digital Markets Act—Apple by blocking app developers from sharing alternative offers, and Meta by limiting user choice with its "Consent or Pay" model. Both must comply within 60 days or face more penalties.<sup>587</sup>
- An internal Meta policy document revealed that its AI chatbots were permitted to engage in romantic chats with minors, generate false medical claims, and produce racist arguments, exposing serious lapses in ethical safeguards despite later revisions.<sup>588</sup>
- Texas AG Ken Paxton is investigating Meta and Character.AI for allegedly misleading children by promoting AI tools as mental health resources, raising concerns over deceptive practices, data exploitation, and inadequate safeguards for minors.<sup>589</sup>
- Meta rolled out new teen safety tools on Instagram and Facebook, removed 135,000 exploitative accounts, and tightened child account settings amid rising lawmaker scrutiny over online child protection.<sup>590</sup>

# Assumptions

FY2025 | Q2

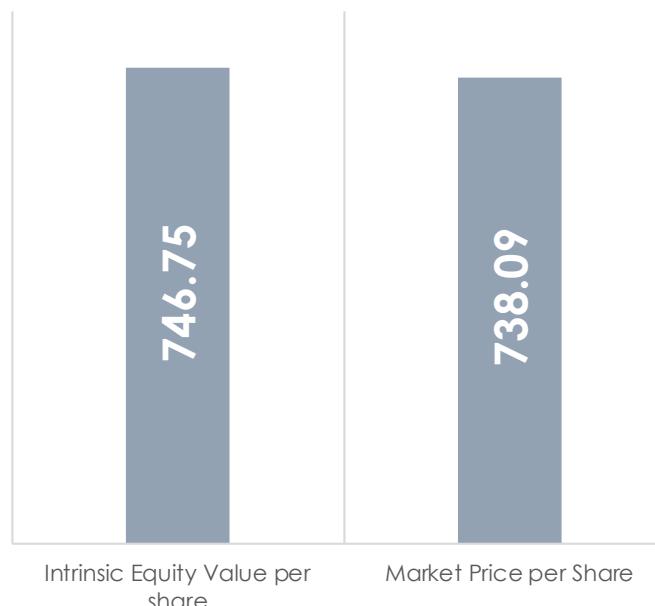
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	178,805	20.00%	4.24%	4.24%	<p>Meta's revenue outlook remains strong, driven by its dominant position in digital advertising and ongoing improvements to its recommendation systems. Business messaging is a key focus, with AI agents in testing for customer service and sales.</p> <p>Meta is also investing steadily in AR and VR, with its Ray-Ban smart glasses performing well. In the short-term, we expect to maintain the same growth rate as previous valuations as Meta continues to deliver consistent ROI and is the first choice for many advertisers.</p>
OPERATING MARGIN	47.45%	30.00%	50.00%	50.00%	<p>We maintained our assumptions for growth phase margins, anticipating lower margins in this phase as Meta continues its aggressive investments in future bets.</p> <p>Over time, we expect margins to increase, aligning with current levels as the company improves efficiency and further monetizes additional revenue streams.</p>
TAX RATE	10.94%	10.94%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.70	RIR =	29.81%	Placed sales to capital average of 2022 as it was an investment year to represent the investment phase that Meta is entering to support its AI efforts. Increased to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	24.86%	Marginal ROIC =	32.92%	14.22%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		11.73%	9.22%	9.22%	Similar WACC as previous quarter in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2025 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	214,566	43.96%	10.94%	83,999	51,087	32,912
2	257,479	40.47%	10.94%	92,798	61,305	31,493
3	308,975	36.98%	10.94%	101,756	73,565	28,190
4	370,770	33.49%	10.94%	110,585	88,279	22,307
5	444,924	30.00%	10.94%	118,876	105,934	12,942
6	519,885	50.00%	14.15%	223,157	49,974	173,183
7	591,088	50.00%	17.36%	244,227	47,469	196,759
8	653,413	50.00%	20.58%	259,484	41,550	217,935
9	701,713	50.00%	23.79%	267,395	32,200	235,195
10	731,466	50.00%	27.00%	266,985	19,835	247,150
<b>Terminal Value</b>	<b>762,480</b>	<b>50.00%</b>	<b>27.00%</b>	<b>278,305</b>	<b>82,971</b>	<b>195,334</b>

The Value	
Terminal value	3,920,786
PV(Terminal value)	1,384,473
PV (CF over next 10 years)	548,073
<b>Value of operating assets</b>	<b>1,932,546</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	47,071
<b>Value of firm</b>	<b>1,979,617</b>
- Debt value of lease	(32,129)
- Total Interest Bearing Debt	(49,560)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(21,988)
<b>Market Value of Equity</b>	<b>1,875,940</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,875,940</b>
Number of shares (primary)	2,512
<b>Intrinsic Equity Value per share</b>	<b>746.75</b>



**98.8%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2025**

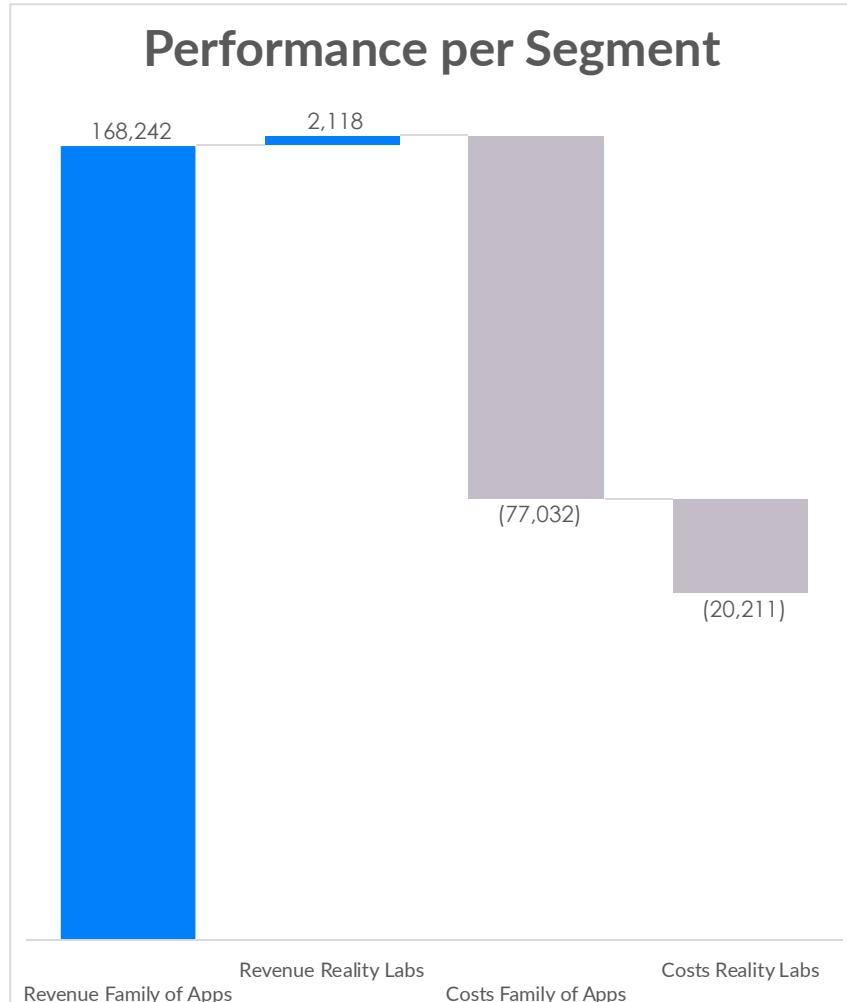
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# **Q1 Results**

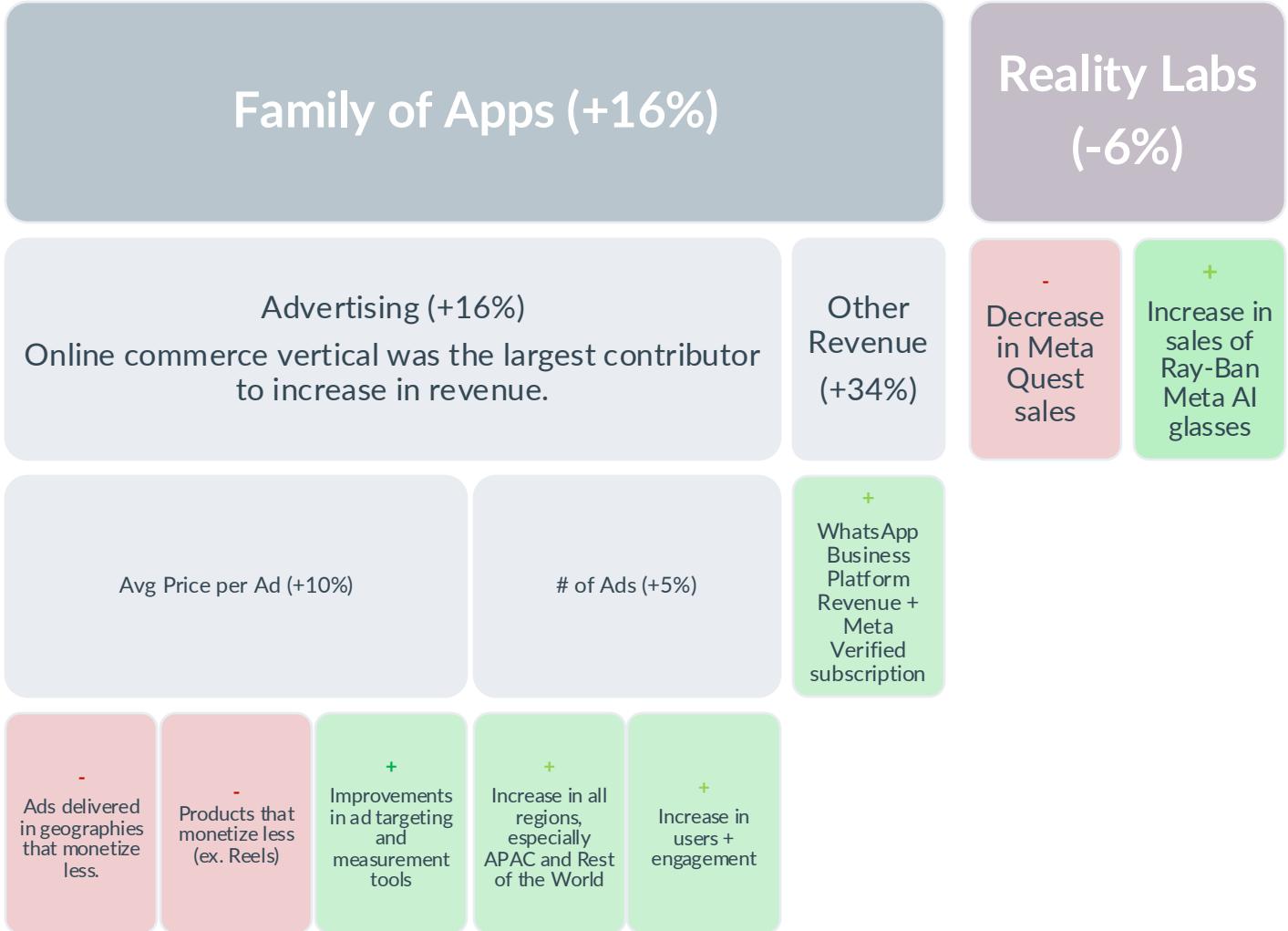
January – March 2025

# Narrative | Segment Drivers

FY2025 | Q1



MARGINS	FoA	54.2%
	RL	-854.2%



# Narrative | General Information

FY2025 | Q1

## COMPANY OUTLOOK

- Meta anticipates full year capital expenditures to increase, reflecting additional datacenter investments to support AI efforts + expected increase in the cost of infrastructure hardware.
  - The company continues to invest at a fast pace even while increasing the useful life of their current infrastructure.
- Meta continues to monitor an active regulatory landscape, including legal and regulatory headwinds in the EU and the US.
  - European commission recently announced its decision to their subscription for no ads model as noncompliant with the DMA – expect they will need to make modifications to their model which could result in a worse experience for European users and therefore impact revenue in the region.
- Meta is focused on 5 key major opportunities: improved advertising, more engaging experiences, business messaging, Meta AI, and AI devices.
  - Improved advertising: the vision is to eventually have businesses define goals and have Meta do the rest. As they incorporates more AI into the advertising process, Meta will become more efficient at knowing which types of ads would be best for different types of users which would result in better overall ROI for advertisers.
  - More engaging experiences: AI has made recommendation system more accurate and the content more engaging. Time spent has increased on all platforms. AI can be used to help create content and expect to aid in making future content more interactive which in turn should increase overall engagement.
  - Business Messaging: expect this to be the next big pillar of the business as AI will make it possible for every business to have their own AI agent helping with sales and customer support.
  - Meta AI: goal is to become the leading AI personal assistant. Recently released standalone app with a social feed. The current focus is to increase scale of use (following their normal playbook for new products) and will later figure out monetization once it gains traction. Expect there to be a large opportunity to show product recommendations or ads, as well as a premium service for people who want to unlock more compute.
  - AI devices: continue to see AI glasses as the next form factor in computing. Ray-Ban glasses have truppled in sales and they are expecting new launches. Are also seeing more engagement in Quest 3S with more people creating experiences in Horizon with AI tools. Recently rolled out live translations to all markets in English, French, Italian and Spanish.
- Meta released the first Llama 4 models which are natively multi-modal, low latency, and efficient. Have more models on the way including Behemoth. Will continue to heavily invest in AI as it has become core for the business.
- Creators remain a big focus and are investing in tools to help them product content including standalone app Edits.
- Meta continues to focus on increasing efficiency of workloads – many of the innovations coming out of their ranking work are focused on increasing the efficiency of their systems to delivery strong returns from core AI initiatives.

# Narrative | General Information

FY2025 | Q1

## OTHER RELEVANT INFORMATION

- Two federal judges have ruled Google a monopoly in search and ad tech, signaling tougher antitrust enforcement and possible business breakups.[556](#)
- Antitrust trials against Meta and Google feel outdated, missing current shifts like TikTok's rise.[557](#)
- The EU fined Apple €500M for App Store anti-steering and Meta €200M for its "pay or consent" ad model. Both plan to appeal.[558](#)
- The text criticizes the EU's heavy regulation of big tech, warning that strict demands and high fines on firms like Apple, Meta, and Nvidia risk stifling innovation and amount to de facto nationalization. It questions the EU's regulatory power and highlights the challenges of creating EU-specific code.[559](#)
- The 2025 AI Index shows rising training costs, falling inference costs, a shrinking U.S.-China model gap, growing state-level policy action, and continued public optimism about AI's impact on jobs.[560](#)
- Meta is testing its first in-house AI training chip to reduce reliance on Nvidia, aiming for wider production if tests succeed. The chip is designed for AI-specific tasks, part of a strategy to lower infrastructure costs and enhance AI capabilities by 2026.[561](#)
- Mark Zuckerberg discusses the evolution of social media and AI at Meta, emphasizing the importance of open-source models like Llama, the shift towards AI-driven content creation, and the potential of business messaging to enhance revenue across platforms like WhatsApp and Instagram.[562](#)
- Apple is developing specialized chips for smart glasses, new Macs, and AI servers, aiming to compete with Meta's products. The glasses are expected to feature energy-efficient processors designed for multiple cameras, while new Mac chips and AI server processors are also in the works, with production planned for 2027.[563](#)
- Snapchat launches its first AI Video Lenses, powered by an in-house generative model, available to Snapchat Platinum subscribers. The initial three Lenses include "Raccoon," "Fox," and "Spring Flowers," with plans to add more weekly, enhancing the app's competitive edge in the social media landscape.[564](#)
- TikTok has launched "TikTok AI Alive," an image-to-video tool that transforms static photos into animated videos with effects. Accessible via the Story Camera, it allows users to create dynamic content while ensuring safety checks and AI-generated labels are in place to identify AI-created videos.[565](#)
- Snap's new sponsored AI lenses offer interactive, branded visuals that boost engagement by integrating users into AI-generated scenes, setting it apart from competitors' static ads.[566](#)
- Humanoid robots face slow progress due to data, safety, and cost hurdles, with near-term viability in logistics and long-term potential at home, requiring diverse data, top talent, and strong partnerships.[567](#)
- Meta's first LlamaCon unveiled new AI tools to rival OpenAI and Google, but development delays and missing features raise concerns, as startups in the space continue attracting major funding.[568](#)
- Meta is disbanding its US fact-checking team in favor of community-based moderation, sparking concerns over misinformation and harm to marginalized groups amid relaxed content policies.[569](#)
- Meta and Google clash over child safety laws, with Meta advocating app store responsibility and parental controls, while Google favors developer-led age protections, amid broader scrutiny on youth privacy and safety.[570](#)
- Meta has been actively trying to make Facebook more appealing to creators again, reaching out to top YouTube creators like Mr Beast and Mark Rober for advice, and offering new cash bonuses for posting Reels on both Facebook and Instagram.[571](#)
- Meta's stock fell sharply as Trump's tariffs threaten ad revenue, especially from Chinese firms and cost-hit small advertisers.[572](#)

# Assumptions

FY2025 | Q1

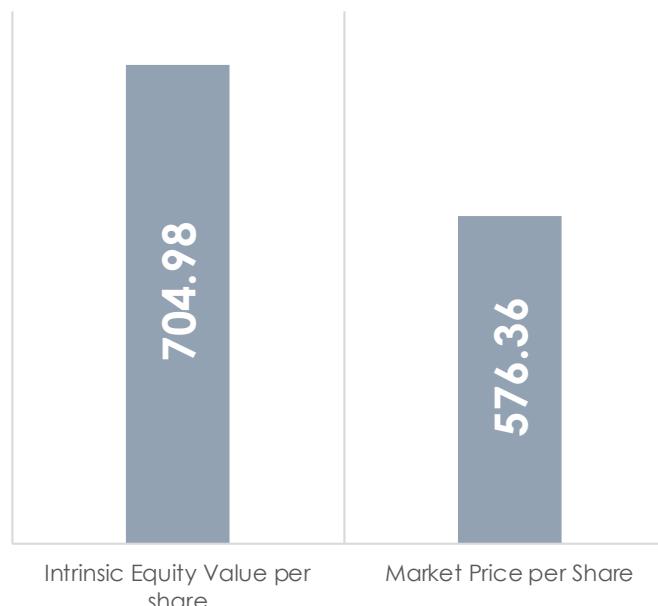
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	170,360	20.00%	4.51%	4.51%	<p>Meta's revenue outlook remains strong, driven by its dominant position in digital advertising and ongoing improvements to its recommendation systems. Business messaging is a key focus, with AI agents in testing for customer service and sales.</p> <p>Meta is also investing steadily in AR and VR, with its Ray-Ban smart glasses performing well. In the short-term, we expect to have slower growth than in previous valuations due to reduced spending from the advertising sector, especially Chinese advertisers, amid regulatory shifts, taking our assumption of growth from 23% to 20%.</p>
OPERATING MARGIN	47.04%	30.00%	50.00%	50.00%	<p>We maintained our assumptions for growth phase margins, anticipating lower margins in this phase as Meta continues its aggressive investments in future bets.</p> <p>Over time, we expect margins to increase, aligning with current levels as the company improves efficiency and further monetizes additional revenue streams.</p>
TAX RATE	10.99%	10.99%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.62	RIR =	31.71%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	26.94%	Marginal ROIC =	30.46%	14.22%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.37%	9.22%	9.22%	Similar WACC as previous quarter in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2025 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	204,432	43.63%	10.99%	79,388	55,287	24,101
2	245,318	40.22%	10.99%	87,827	66,345	21,482
3	294,382	36.81%	10.99%	96,464	79,613	16,851
4	353,258	33.41%	10.99%	105,044	95,536	9,508
5	423,910	30.00%	10.99%	113,197	114,643	(1,446)
6	495,559	50.00%	14.19%	212,616	47,766	164,850
7	563,967	50.00%	17.39%	232,936	45,605	187,331
8	624,345	50.00%	20.60%	247,878	40,252	207,626
9	671,845	50.00%	23.80%	255,980	31,667	224,313
10	702,145	50.00%	27.00%	256,283	20,200	236,083
<b>Terminal Value</b>	<b>733,812</b>	<b>50.00%</b>	<b>27.00%</b>	<b>267,841</b>	<b>84,938</b>	<b>182,904</b>

The Value	
Terminal value	3,881,840
PV(Terminal value)	1,316,114
PV (CF over next 10 years)	469,574
<b>Value of operating assets</b>	<b>1,785,688</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	70,230
<b>Value of firm</b>	<b>1,855,918</b>
- Debt value of lease	(27,682)
- Total Interest Bearing Debt	(49,519)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,168)
<b>Market Value of Equity</b>	<b>1,772,549</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,772,549</b>
Number of shares (primary)	2,514
Intrinsic Equity Value per share	<b>704.98</b>



**81.8%**  
PRICE AS % OF VALUE

VALUATION YEAR

# FY2024

January – December 2024

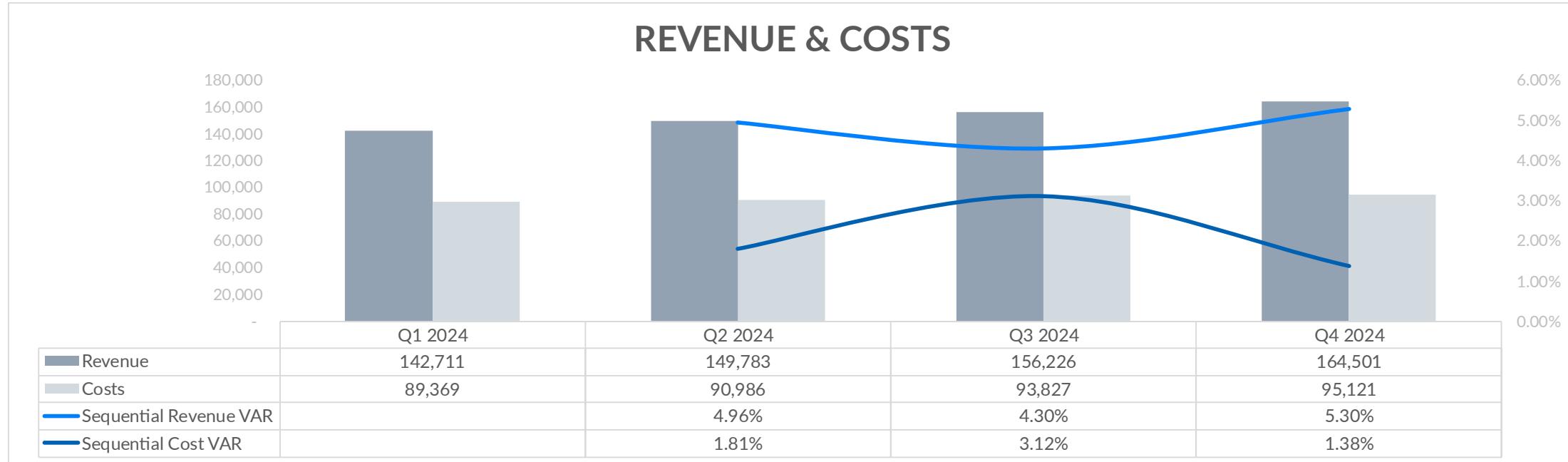




# General Narrative

- ∞ Meta is heavily investing in AI and Metaverse technologies driving growth in advertising and user engagement while exploring new business opportunities such as AI-driven tools and wearables. Investments in Llama and opensource AI continue to be a focus as Meta believes opensource will be the main form of AI use going forward.
- ∞ Meta faces increasing regulatory scrutiny, particularly in Europe, and legal challenges including lawsuits related to the impact of its platforms on minors' mental health. The company is also navigating stiff competition in both social media and AI, while aiming to retain market share and develop advanced AI models.

# Fiscal Year at a Glance



Revenue 5-year CAGR was 17.6% as Meta has grown into the social media behemoth it is today. As Meta explores new areas of growth and opens new monetization options, growth can be expected to remain in the double digits. Even with these positive prospects, it is currently facing issues with public scrutiny, reputational damage and more rigorous regulation which can negatively impact their revenue.

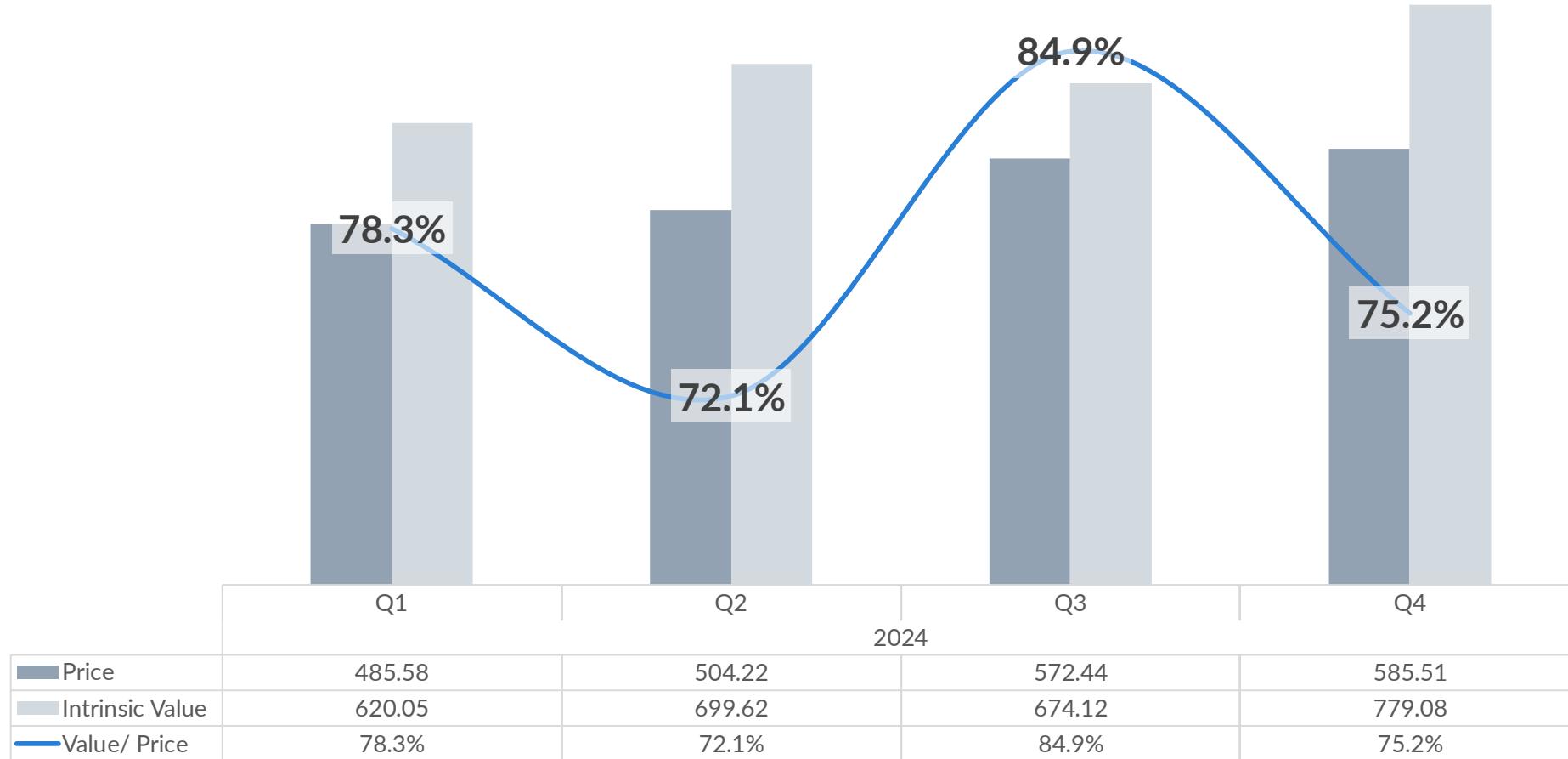
Costs 5-year CAGR was 15.6% as Meta has been heavily investing in their future growth. The cost has been decreasing over the years as it strives to be a more efficient company. For future years, costs can be expected to decrease more as Meta has focused on becoming a leaner company to be able to give back to shareholder while they continue to make aggressive investments in the future.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Meta faces more legal costs as it faces a tougher regulatory environment worldwide.
- ∞ Meta implements restrictions for teens due to regulatory pressure.
- ∞ AI-recommended content has increased in both IG and FB, increasing overall time-spent and user engagement. AI has also improved delivery, targeting and measurement of ads delivered. Meta has also released better AI tools to aid advertisers in creating more engaging content.
- ∞ Meta's silicon has allowed for more efficiency as they continue to build datacenters in a fungible manner.
- ∞ WhatsApp Business continues to be adopted + WhatsApp increases in user growth, especially in the US. Have seen progress with AI Agents in both WhatsApp and Messenger, especially in Asia.
- ∞ Young adults are being very active in FB, specially in FB Marketplace and Groups.
- ∞ Threads continues to grow in both users and engagement.
- ∞ Release of Llama 3 version of LLM, including smaller models.
- ∞ Development of V-JEPA, a new AI model trained on video footage.
- ∞ Orion demo was showcased in Meta Connect event to show the company's advancements in AR tech. RayBan glasses also continue to grow in adoption.
- ∞ Meta AI grows in users as the company implements it across its apps.
- ∞ Quest 3 sales exceeds expectations as uses beyond gaming continue to emerge. The use of Horizon also increases.

# Intrinsic Value vs Price





FISCAL YEAR  
**2024**

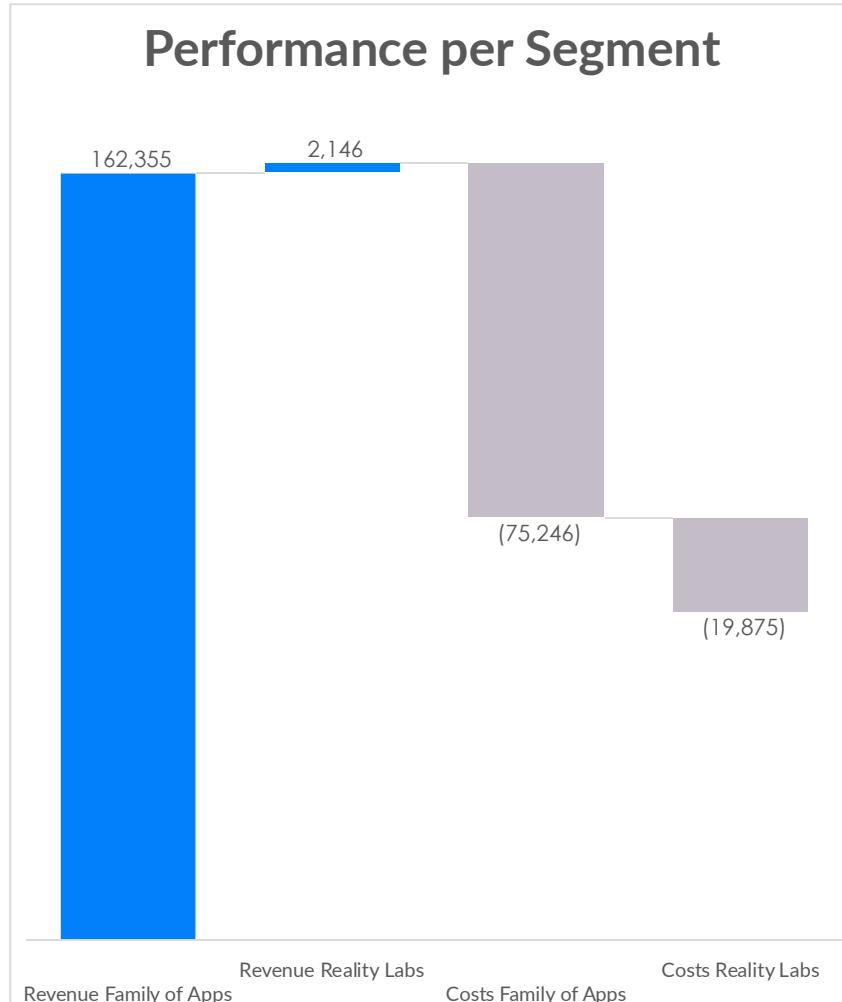
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# **Q4 Results**

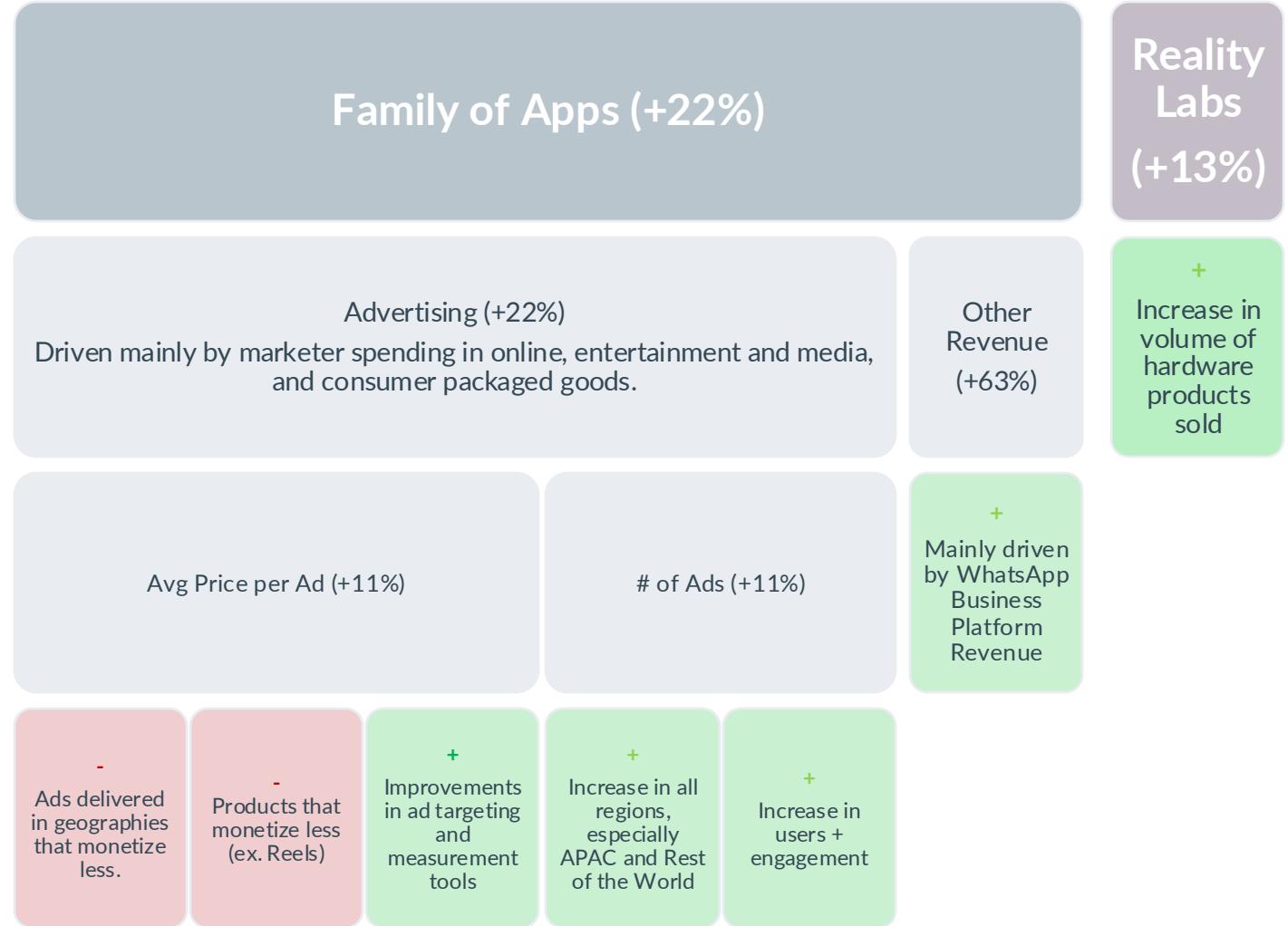
October – December 2024

# Narrative | Segment Drivers

FY2024 | Q4



MARGINS	FoA	53.7%
	RL	-826.1%



# Narrative | General Information

FY2024 | Q4

## COMPANY OUTLOOK

- In 2025, Meta intends to focus on investments on generative AI, their discovery engine, the metaverse and wearables, Threads, monetization of their products and services, platform integrity and community support, and infrastructure capacity.
- The company expects the RL segments to continue to operate at a loss for the foreseeable future.
  - Many of their RL investments are directed to long-term, cutting-edge R&D for products that are not in the market today. This includes exploring new technologies such as neural interfaces using electromyography as well as innovations in AI and hardware to help build the next generation of interfaces.
  - In 2024, Meta unveiled Orion prototype (their true AR glasses that overlay content on top of the physical world).
  - Expect approximately 50% of their RL operating expenses to go to their Wearables initiatives and the remaining 50% to their metaverse initiatives for 2025.
- In November 2024, Meta began offering users in the EU who continue to use their services free of charge, supported by ads, and option to see less personalized ads due to EU Regulation. They expect this will impact the relevance and effectiveness of ads shown in this market.
- The company expects to make capital expenditures of approximately \$60-65 billion in 2025 to support their core business and generative AI efforts.
- In January 2025, Meta completed an assessment of the useful lives of certain servers and networks assets and determined that they should extend the estimated useful lives to 5.5 years. This will change the accounting estimates beginning fiscal year 2025.
- As of December 2025, all restructuring costs from the 2022 restructuring plans were complete.
- Meta expects 2025 to be the year when Llama and open source becomes the most advanced and widely used AI models – Llama 4 is making great results in training.
  - Llama 4 will be natively multimodal and will have agentic capabilities – will unlock new use cases.
  - Expect 2025 to be the year when it becomes possible to build an AI engineering agent that has coding and problem-solving abilities of around a good mid-level engineer.
- Meta expects 2025 to be the year when they understand the trajectory for the AI glasses category.
- Video has become an increasingly important factor for engagement in all Meta platforms. Reels continues to grow, and they expect the trajectory to continue independent of what happens with TikTok.
- Facebook app is used by more than 3 billion monthly actives and Meta is focused on growing its cultural influence. Want to go back to OG FB in 2025.
- Meta has seen growth in both Threads and WhatsApp + expect to continue to see growth on both platforms.
- The company is planning on working to have a better relationship with governments, especially US government, going forward.
- Creators are one of their central focuses and will continue to prioritize original posts in recommendations to help smaller creators get discovered.
- Meta is introducing updates that will enable Meta AI to deliver more personalized and relevant response by remembering certain details from people's prior queries and considering what they engage on with on FB and IG to develop better intuition for their interest and preferences.
- The company introduced in 2024 a new machine learning system in partnership with Nvidia called Andromeda. This enables 10,000x increase in the complexity of models they use for ad retrieval, which is part of the ranking process where they narrow down a pool of tens of millions of ads to the few thousand, they consider showing someone. It's enabling them to run far more sophisticated prediction models to better personalize which ads to show someone and has driven an 8% increase in the quality of ads on the objectives they have tested.
- Meta is pursuing cost efficiencies by deploying their custom MTIA silicon where they can achieve a lower cost of compute by optimizing the chip to their unique workloads. It is mainly deployed for their ranking and recommendation inference workloads for ads and organic content. Expect further adoption for these use cases throughout 2025 before extending to training workloads for ranking and recommendations next year.
- Meta is still in the early stages of piloting business AIs – gradually expanding tests. Their focus is currently in supporting businesses that use click-to-message ads for WhatsApp and Messenger, specifically in small businesses in India and several other countries in APAC. Meta is also slowly expanding business AIs in Spanish across Latin-America including Mexico. Businesses are telling them that AI saves them time, while consumers note that they get more timely response times to their inquiries.

# Narrative | General Information

FY2024 | Q4

## OTHER RELEVANT INFORMATION

- A judge ruled that Meta, Google, TikTok, and Snap must face school district lawsuits over claims their apps fuel a student mental health crisis. Schools argue the platforms' designs drive compulsive use, raising costs. The companies deny wrongdoing, citing safety measures.<sup>[531](#)</sup>
- Instagram launched Teen Accounts with stricter privacy and Yoti's facial analysis for age checks, detecting 90% of underage users.<sup>[532](#)</sup>
- Advertisers are scaling back content policing under GOP pressure, fearing business risks.<sup>[533](#)</sup>
- Meta loosens speech rules but reassures advertisers on brand safety amid misinformation concerns.<sup>[534](#)</sup>
- Meta faces an April trial over FTC claims it bought Instagram and WhatsApp to stifle competition.<sup>[535](#)</sup>
- The \$700B digital ad industry remains largely unregulated, exposing brands to risks. In 2025, new laws in Canada, California, and New York will enhance transparency and accountability, protecting brands from fraud and misplacement.<sup>[536](#)</sup>
- U.S. and Europe clash on social media rules, risking a fragmented online space and impacting discourse.<sup>[537](#)</sup>
- Meta ends third-party fact-checking, shifts to Community Notes, and eases content rules to focus on major violations, aiming to foster more political discourse.<sup>[538](#)</sup>
- Meta will reintroduce political content on Facebook, Instagram, and Threads, giving users more control over what they see, following backlash against previous restrictions.<sup>[539](#)</sup>
- Advertisers are worried Meta's new content policies could link their brands to toxic content, but with few alternatives and Meta's large user base, they may have to stay. The digital ad market is set to grow, with Meta and Google maintaining dominance.<sup>[540](#)</sup>
- Over 700,000 new users joined China's RedNote app as Americans seek TikTok alternatives before a potential U.S. ban, driving cultural exchanges and downloads, while the app manages English-language content.<sup>[541](#)</sup>
- The EU is reconsidering its investigations into Apple, Google, and Meta due to pressure from U.S. tech companies and the incoming Trump administration, potentially delaying decisions and fines. Lawmakers urge the EU to stay firm in its regulatory stance.<sup>[542](#)</sup>
- Instagram and YouTube are enhancing features to attract TikTok users, anticipating a potential U.S. TikTok ban. Instagram is expected to capture more users and ad interest than YouTube.<sup>[543](#)</sup>
- Meta is launching a new video editing app, Edits, for creators on iOS next month. It will offer creative tools, video performance insights, and draft sharing, replacing CapCut after the TikTok ban.<sup>[544](#)</sup>

# Narrative | General Information

FY2024 | Q4

## OTHER RELEVANT INFORMATION

- Instagram is offering TikTok creators cash bonuses of \$10,000 to \$50,000 per month for exclusive Reels, as it seeks to capitalize on TikTok's challenges and attract young users amidst uncertainty about TikTok's U.S. future.<sup>545</sup>
- Meta is working on Oakley-branded smart glasses, exploring wearables like watches and camera earbuds, with AR glasses expected by 2027. The high-end Hypernova glasses, priced around \$1,000, will include a display.<sup>546</sup>
- Mark Zuckerberg revealed Meta plans to spend \$60-\$65 billion in capital expenditures this year, surpassing expectations and raising concerns about profitability if AI investments don't pay off, despite a positive market response.<sup>547</sup>
- AppLovin's stock surged 700% in 2024, fueled by its shift from mobile gaming to digital advertising with AI targeting and e-commerce expansion, though the growth's sustainability is uncertain.<sup>548</sup>
- Meta's decision to open-source its AI technology is validated by DeepSeek's breakthrough, showing that smaller companies can innovate and compete with major tech firms in AI development.<sup>549</sup>
- Meta is working with ad agencies to develop AI tools that improve creativity and ad effectiveness. Despite some resistance, generative AI use has surged, driving a 21% rise in ad revenue. Meta's AI initiatives also include advanced ad-buying tools and new AI assistant ad formats.<sup>550</sup>
- Meta has teamed up with Childhelp to create a free curriculum for middle schoolers to recognize online exploitation, including sextortion and grooming. This initiative is part of Meta's broader efforts to improve child safety amid growing legislative attention.<sup>551</sup>
- Meta hired former RealReal CEO John Koryl as VP of retail to boost sales of AI wearables like Quest headsets and Ray-Ban smart glasses, signaling ongoing investment in retail strategies.<sup>552</sup>
- Snapchat is launching a new monetization program for influencers, combining earnings from Stories and Spotlight with higher participation benchmarks. The program will be available starting February 1, 2025.<sup>553</sup>
- Meta hired former CEOs from TheRealReal and GM's Cruise to boost its retail and robotics initiatives within Reality Labs, despite financial losses. The company aims to leverage their expertise and explore humanoid robots, while its stock rises with these strategic shifts.<sup>554</sup>
- Meta is enhancing AI for businesses by seeking a patent for hardware that improves AI chip communication, aiming to make advanced AI tools more accessible. However, it faces competition in the enterprise AI market and must prove the advantages of its Llama language model over rivals.<sup>555</sup>

# Assumptions

FY2024 | Q4

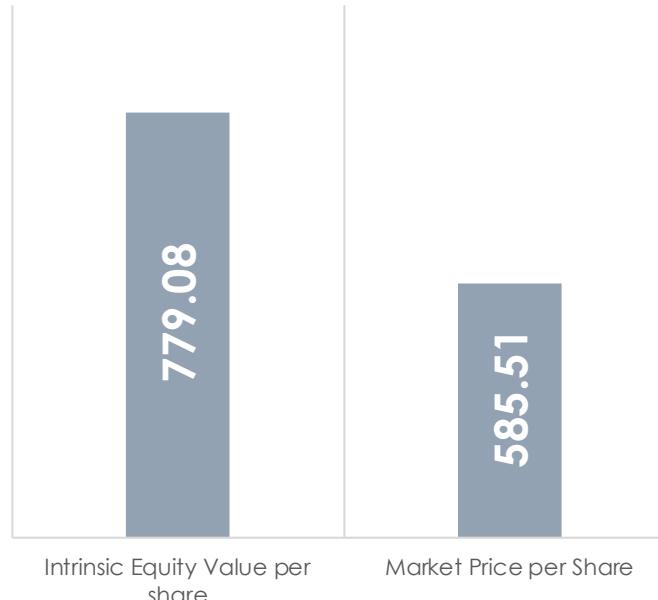
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	164,501	23.00%	4.44%	4.44%	<p>Meta maintains a stable revenue position while continuing to invest in its strategy. Significant investments in AI have led to improved ad targeting and additional tools for advertisers, contributing to increased ROI and revenue growth. Business messaging remains a key focus, with AI Agents in testing showing promising results so far. Wearables continue to perform well, with better-than-expected outcomes from the RayBan glasses. Growth is anticipated to continue.</p>
OPERATING MARGIN	45.18%	30.00%	50.00%	50.00%	<p>We maintained our assumptions for growth phase margins, anticipating lower margins in this phase as Meta continues its aggressive investments in future bets. Over time, we expect margins to increase, aligning with current levels as the company improves efficiency and further monetizes additional revenue streams. Given Meta's consistent margin expansion each quarter, we have raised the terminal margin estimate from 45% to 50%, reflecting expectations of stronger future profitability.</p>
TAX RATE	11.75%	11.75%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.62	RIR =	31.22%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	25.81%	Marginal ROIC =	31.75%	14.22%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.30%	9.22%	9.22%	Similar WACC as previous quarter in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2024 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	202,336	42.15%	11.75%	75,258	61,108	14,150
2	248,874	39.11%	11.75%	85,898	75,163	10,735
3	306,114	36.07%	11.75%	97,451	92,451	5,000
4	376,521	33.04%	11.75%	109,774	113,715	(3,940)
5	463,121	30.00%	11.75%	122,611	139,869	(17,258)
6	552,447	50.00%	14.80%	235,342	59,551	175,791
7	638,496	50.00%	17.85%	262,262	57,366	204,896
8	714,248	50.00%	20.90%	282,485	50,501	231,984
9	772,473	50.00%	23.95%	293,733	38,817	254,916
10	806,771	50.00%	27.00%	294,471	22,865	271,606
<b>Terminal Value</b>	<b>842,592</b>	<b>50.00%</b>	<b>27.00%</b>	<b>307,546</b>	<b>96,016</b>	<b>211,530</b>

The Value	
Terminal value	4,423,805
PV(Terminal value)	1,506,561
PV (CF over next 10 years)	475,173
<b>Value of operating assets</b>	<b>1,981,734</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	77,815
<b>Value of firm</b>	<b>2,059,549</b>
- Debt value of lease	(30,499)
- Total Interest Bearing Debt	(49,060)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,070)
<b>Market Value of Equity</b>	<b>1,973,920</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,973,920</b>
Number of shares (primary)	2,534
Intrinsic Equity Value per share	<b>779.08</b>



**75.2%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2024**

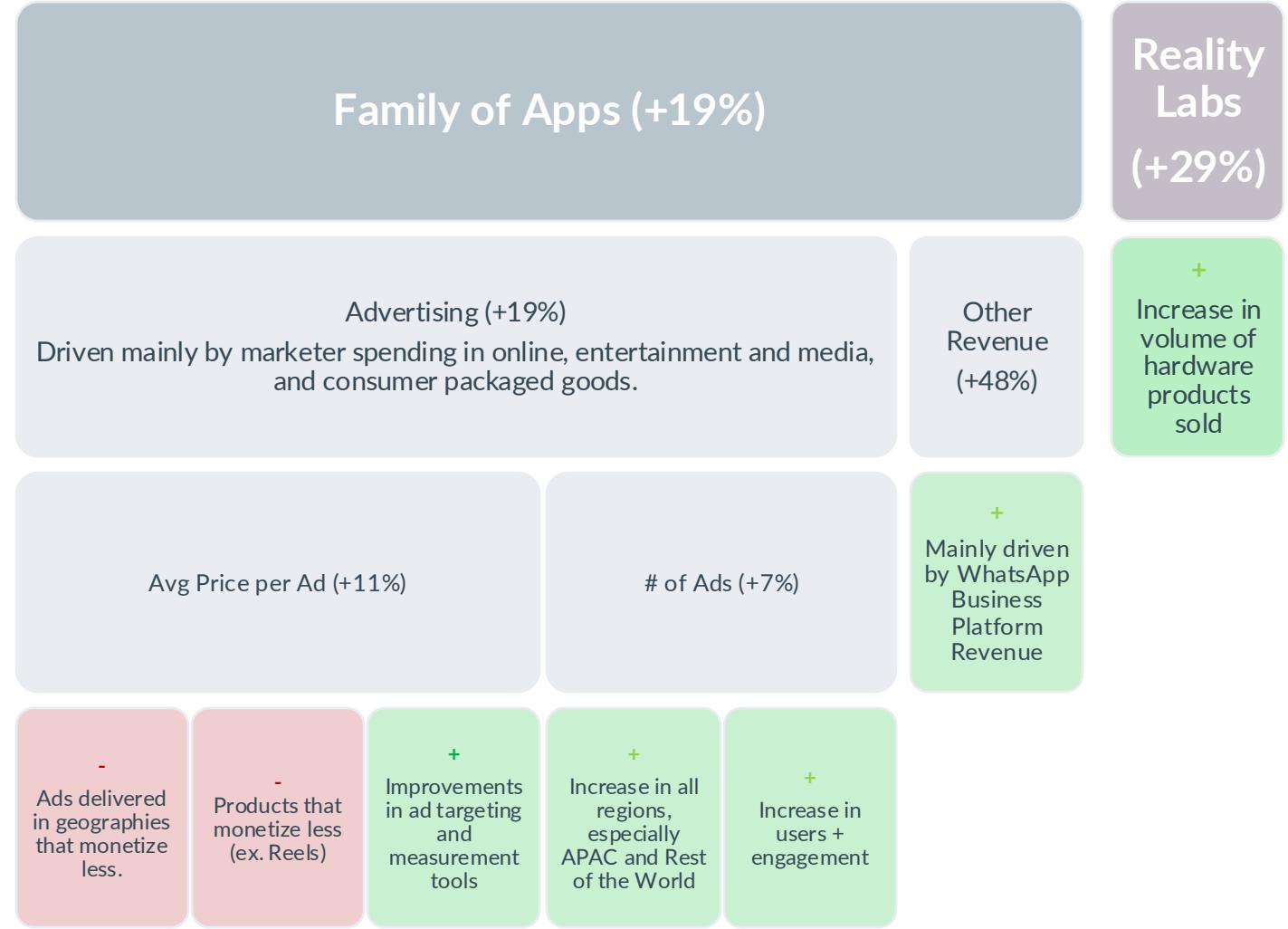
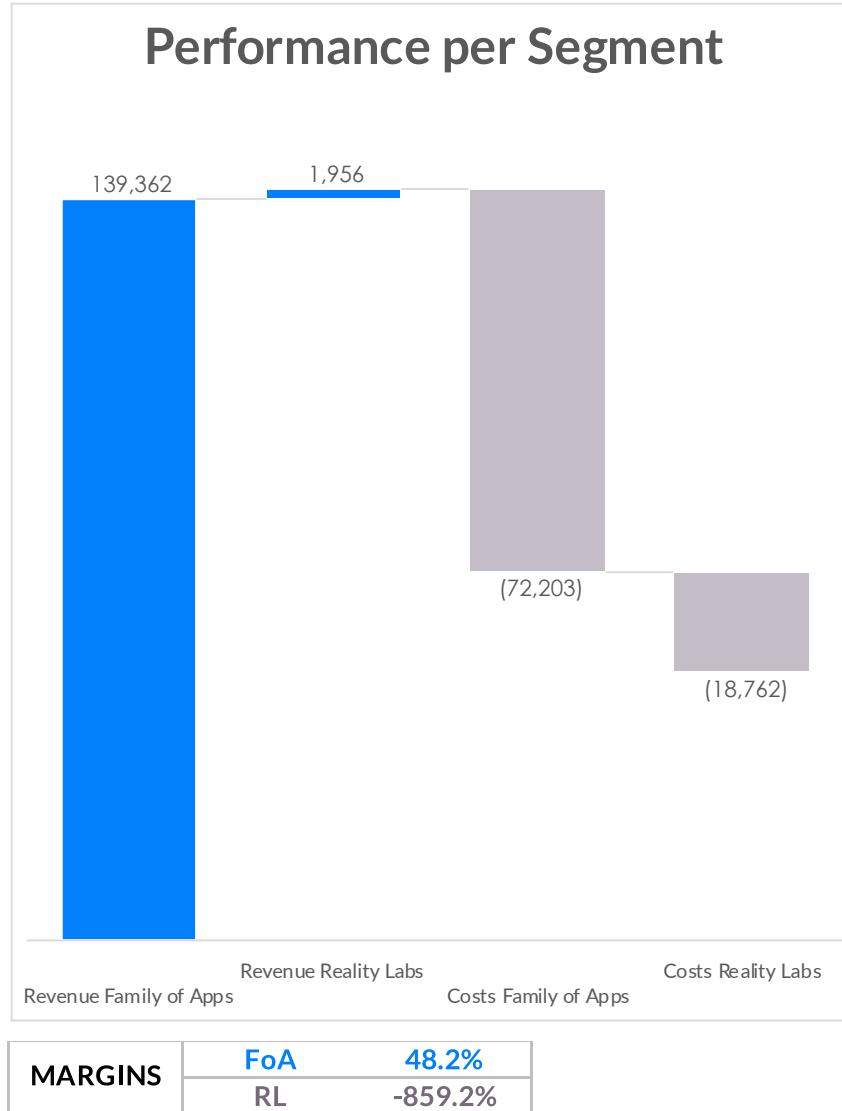
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# **Q3 Results**

July – September 2024

# Narrative | Segment Drivers

FY2024 | Q3



# Narrative | General Information

FY2024 | Q3

## COMPANY OUTLOOK

- Meta continues to face many regulatory hurdles as countries investigate their practices, especially in regions like the EU.
- The company has seen rapid adoption of Meta AI and Llama.
- WhatsApp use continues to increase in the US as well as increased Facebook use in younger users. Threads user growth has increased with 1M sign-ups per day and 275M MAUs.
- Implemented new teen restrictions for Instagram.
- AI has positively impacted Meta's results:
  - The use of AI for feed and video recommendations have led to an 8% increase in time spent on Facebook and 6% increase on Instagram. 60% of content on Instagram is recommended content.
    - Developed a new ranking model architecture capable of learning more effectively and from significantly larger data sets. Have been deploying these new architectures to their Facebook video ranking models, enabling them to deliver more relevant recommendation and unlock meaningful gains in watch time.
    - Exploring whether these new models can unlock similar improvements to recommendations on other surfaces.
    - Will look to introduce cross-surface data to these models so their systems can learn from what is interesting to someone on one surface of their apps and use it to improve their recommendations on another. This will unlock more relevant recommendations while also leading to higher engineering efficiency as they operate a smaller number of recommendation models.
  - More than a million advertisers used their GenAI tools to create more than 15 million ads in the last month. Meta estimates that businesses using Image Generation are seeing a 7% increase in conversions. The demand from advertisers has increased as they have seen improved ad performance.
- See potential of increasing ad inventory in video by improving conversions through organic content ranking.
- Meta will continue to invest in infrastructure significantly as they continue to develop AI. They are currently training Llama 4.
- Launched new Quest lineup in Meta Connect as well as showed a demo of Orion, Meta's AR glasses project. RayBan glasses are expected to continue to do well as integration with Meta AI has made it a more compelling use case.
- Have seen progress with tests of AI agents in both WhatsApp and Messenger, especially in Asia. The company is currently focused on supporting shopping use cases such as responding to people who are asking for more information about a product or about its availability. Are currently expanding support (lead generation) to help businesses generate high-quality leads. Scaling to languages beyond English will be an important part of growth going forward but currently are focused on learning and improving.

# Narrative | General Information

FY2024 | Q3

## OTHER RELEVANT INFORMATION

- Over 1 million advertisers are using Meta's generative AI ad tools, creating 15 million ads in a month, with campaigns showing 7.6% higher conversion rates compared to non-AI campaigns.<sup>513</sup>
- Perplexity AI is planning to introduce ads in its AI-assisted search results in Q4 2024, including a revenue-sharing model with publishers. The AI-assisted search landscape is evolving with OpenAI's SearchGPT and Google's AI Overviews in search results.<sup>514</sup>
- Meta has confirmed using public posts since 2007 to train its AI models, affecting user content across Facebook and Instagram.<sup>515</sup>
- Meta canceled plans for a high-end mixed-reality headset (code-named La Jolla) due to pricing challenges. The company is also working on AR glasses with displays in lenses, though they won't be available for public release for several years.<sup>516</sup>
- Apple is conducting an internal "Atlas" study to explore smart glasses development, potentially creating glasses that work like AirPods.<sup>517</sup>
- Google is collaborating with Qualcomm and Samsung on mixed reality smart glasses that connect to phones.<sup>518</sup>
- Snap demonstrated new Spectacles with improved AR capabilities, though they're primarily tech demos rather than consumer-ready products. It incorporates OpenAI's multimodal AI but hasn't succeeded in making it very useful. Snap is currently focusing on pitching this device for developers.<sup>519</sup>
- TikTok filed a lawsuit challenging the sell-or-ban law, with a court decision expected by December 6, 2024. ByteDance must divest TikTok by January 19, 2025, unless an extension is granted.<sup>520</sup>
- The company claims divestiture is not possible "technologically, commercially, or legally" within the given timeframe. China's government opposes forced divestiture and has added AI algorithms to its export control list, potentially complicating any sale.<sup>521</sup>
- Australia plans to implement a minimum age limit (13-16 years) for social media use and is introducing "Digital Duty of Care" laws requiring platforms to prevent foreseeable harms.<sup>522</sup>
- The UK has introduced laws requiring platforms to prevent access to content promoting suicide or eating disorders.<sup>523</sup>
- Over 200 school districts have filed lawsuits against social media companies regarding students' mental health. U.S. Senators proposed a commission to regulate online platforms and establish a "duty of care" requirement.<sup>524</sup>
- FTC study revealed "vast surveillance" of users by social media platforms, with companies collecting more data than users realize.<sup>525</sup>
- PayPal is launching PayPal Ads, a new advertising business that will leverage transaction data from its payment platforms.<sup>526</sup>
- TikTok has recently launched several AI-powered advertising tools as a response to Meta's Advantage+ features.
- Smart+: An AI-powered tool that automates ad campaign management, including creative development, targeting, and optimization. Offers flexibility for marketers to choose which AI features to use, unlike competitors' all-or-nothing approaches. Early tests showed 53% improvement in return on ad spend for web campaigns.<sup>527</sup>
- Symphony Creative Studio: Includes Getty Images integration for licensed content in AI-generated ads. Can generate video ads based on product descriptions and create multiple versions of an ad.<sup>528</sup>
- Meta is training its next Llama AI model (Llama 4) on an unprecedented GPU cluster with more than 100,000 H100 chips, according to CEO Mark Zuckerberg.<sup>529</sup>
- ByteDance is pursuing multiple strategies to develop AI chips for TikTok and its other platforms. Aims to mass produce two types of AI chips by 2026 in collaboration with TSMC - one for AI training and another for inference. The chips will use 5nm technology and aim to achieve four times the computing performance of Nvidia's H100 at similar cost.<sup>530</sup>

# Assumptions

FY2024 | Q3

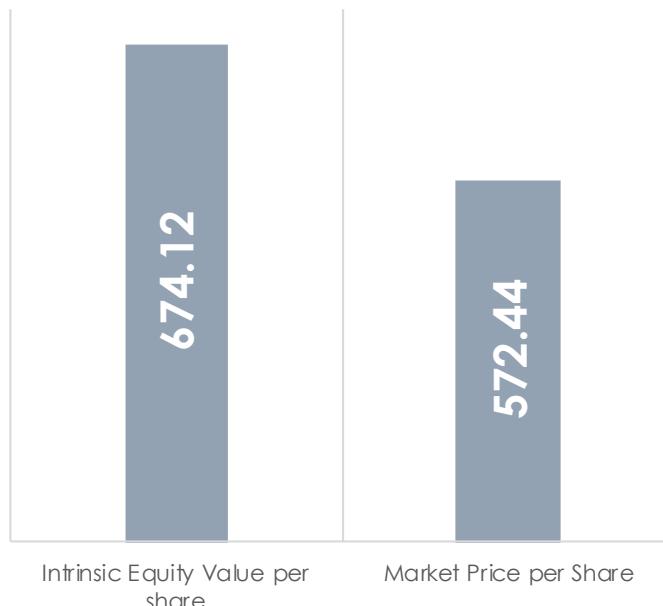
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	156,226	23.00%	3.81%	3.81%	Meta's future revenue outlook appears strong, driven by several key factors. Its investments in AI are enhancing recommendation systems, making ad targeting more accurate and efficient, which boosts conversions and delivers better ROI for advertisers, fostering repeat business. Additionally, the company is poised for growth in business messaging, a rapidly expanding segment with promising results from initial tests. Complementing these efforts are steady sales of its wearables, including Ray-Ban smart glasses and Quest VR headsets, which further diversify its revenue streams and capitalize on consumer interest in immersive technology.
OPERATING MARGIN	43.31%	30.00%	45.00%	45.00%	Maintained same assumptions for margins, expecting lower margins in the growth phase as Meta continues to aggressive invest in their future bets. Expect to increase over time to similar margins as they have today as the company becomes more efficient and the monetization of other revenue streams materializes in a more significant way.
TAX RATE	13.11%	13.11%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.62	RIR =	27.92%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	24.68%	Marginal ROIC =	27.98%	13.64%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.48%	8.64%	8.64%	Assuming 30% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2024 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	192,158	40.65%	13.11%	67,868	57,585	10,284
2	236,354	37.99%	13.11%	78,011	70,829	7,182
3	290,716	35.32%	13.11%	89,229	87,120	2,110
4	357,580	32.66%	13.11%	101,481	107,157	(5,676)
5	439,824	30.00%	13.11%	114,648	131,803	(17,155)
6	524,103	45.00%	15.89%	198,374	56,186	142,188
7	604,417	45.00%	18.67%	221,218	53,542	167,675
8	673,840	45.00%	21.44%	238,203	46,282	191,921
9	725,375	45.00%	24.22%	247,353	34,357	212,997
10	753,012	45.00%	27.00%	247,364	18,425	228,940
<b>Terminal Value</b>	<b>781,702</b>	<b>45.00%</b>	<b>27.00%</b>	<b>256,789</b>	<b>71,708</b>	<b>185,081</b>

The Value	
Terminal value	3,828,940
PV(Terminal value)	1,310,508
PV (CF over next 10 years)	384,737
<b>Value of operating assets</b>	<b>1,695,245</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	70,900
<b>Value of firm</b>	<b>1,766,145</b>
- Debt value of lease	(29,454)
- Total Interest Bearing Debt	(49,047)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,071)
<b>Market Value of Equity</b>	<b>1,681,573</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,681,573</b>
Number of shares (primary)	2,494
Intrinsic Equity Value per share	<b>674.12</b>



**84.9%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2024**

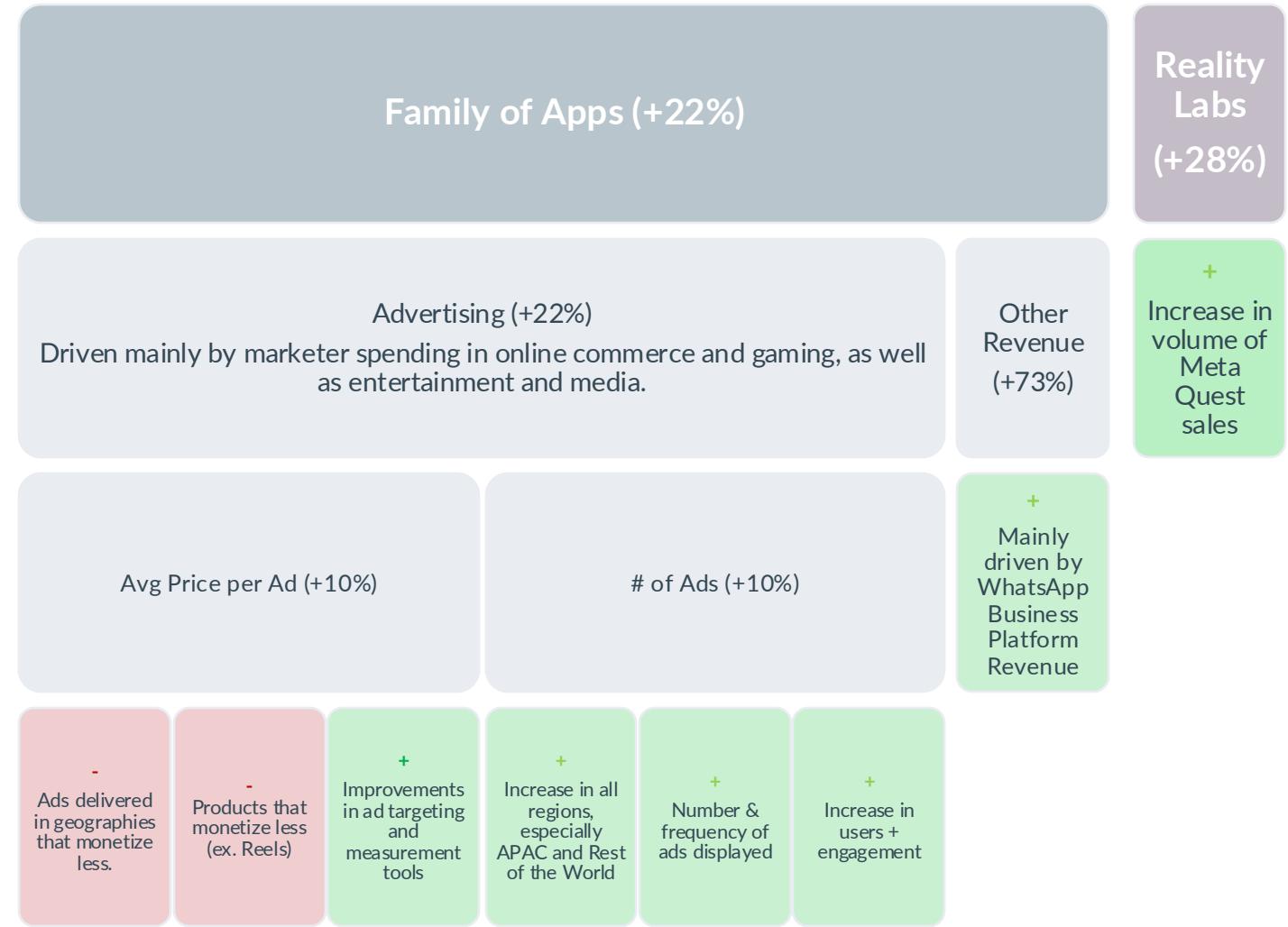
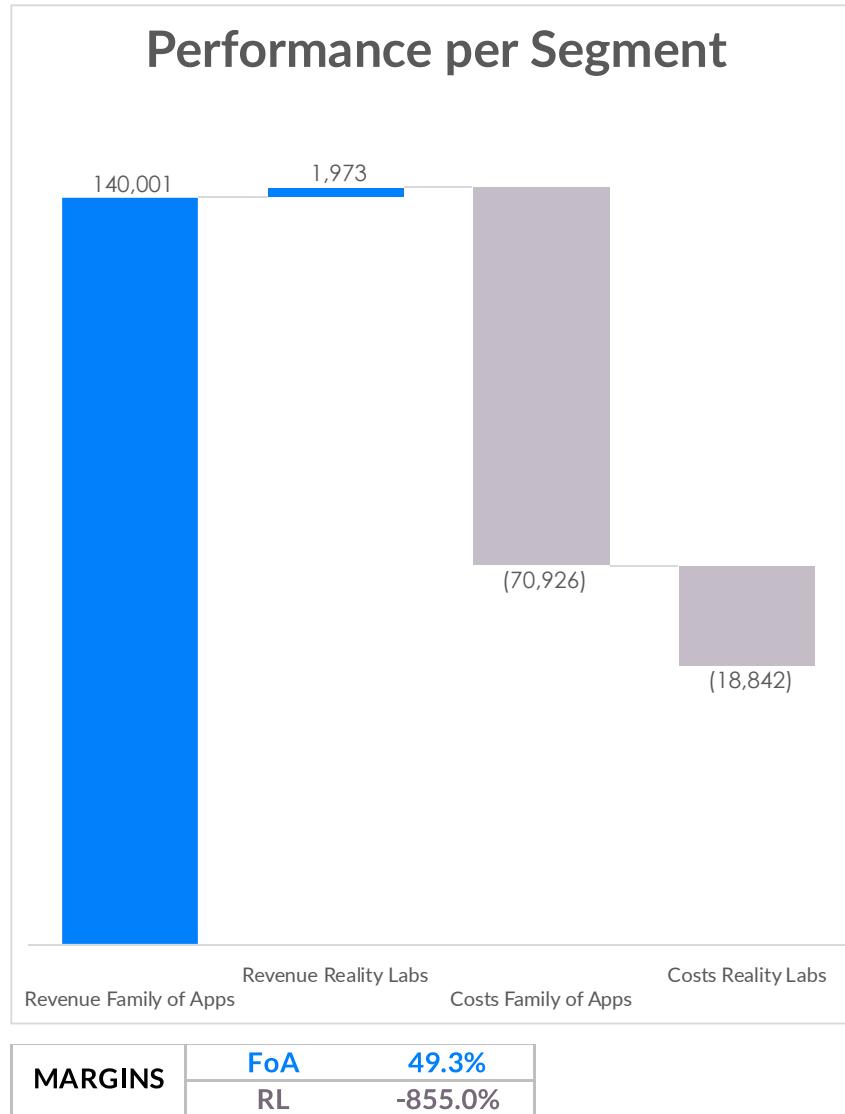
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# **Q2 Results**

April – June 2024

# Narrative | Segment Drivers

FY2024 | Q2



# Narrative | General Information

FY2024 | Q2

## COMPANY OUTLOOK

- Meta has seen important user growth, especially with WhatsApp, in the US, serving +100M MAUs in the country. Good user growth overall for all the apps globally.
- Young adults are being very active in FB with FB Marketplace and Groups being the main features they use the most.
- Threads is currently at 200M MAUs and has seen good overall engagement.
- 3 Focus Areas for AI: FoA + Core Business | New experiences + opportunities | Shaping Metaverse work.
  - AI has improved recommendation system which translates into more effective ads for advertisers – has been an important factor in the increase in overall price per ad.
  - Used AI in FB to unify recommendation system for all video formats (Reels + Long-form). Over time will unify recommendation system for all form factors and in all apps.
  - Deploying new tools for advertisers to help with ad creative and will continue to invest to make it easier for advertisers to get good results and deploy ads.
  - On track to have Meta AI become the most used assistant by the end of the year. Have seen many new use cases which have increased engagement with Meta FoA.
  - Launched Meta AI Studio which enables any user to be able to create an AI personification of themselves which they see as a tool for creators to increase engagement and interact more with their followers. Businesses will also be able to create AIs so users can interact with the brands.
  - Business AI is currently in alpha testing but expect to be an important revenue stream as a tool for businesses for sales and customer service.
  - Continue to invest and develop Llama. Expect to develop Llama 4 in 2025 which will require 10X more compute than Llama 3 – this translates into higher Capex expenses.
  - Metaverse efforts continue to be an important part of the investments but still a long-term play. Ray-Ban glasses are focus in the short term as demand still exceeds supply. Quest 3 sales have also exceeded expectations as it is not only used for gaming and Horizon continues to grow.
- Meta expects CAPEX to increase for 2024 and 2025 as their current compute needs outstrip available datacenter capacity. The new capacity is going more towards GenAI workloads and have had to shift capacity to free up Gen AI training. Since they are making datacenter capacity fungible, this provides flexibility to shift compute according to the use case that might be needed the most.
- Expect to increase their headcount but still focused on doing it in a meaningful way.

# Narrative | General Information

FY2024 | Q2

## OTHER RELEVANT INFORMATION

- Meta has paused its plans to train AI systems using data from users in the European Union and U.K. due to regulatory pressure from the Irish Data Protection Commission and the U.K.'s Information Commissioner's Office. The move follows objections raised by these authorities regarding Meta's use of public content shared by adults on Facebook and Instagram. Meta's privacy policy changes, which would have allowed the use of public content for AI training, have been delayed. The company is now expected to consult with the regulatory authorities to address their concerns.<sup>495</sup>
- Meta, the parent company of Facebook, has revamped its feed and implemented new recommendation algorithms to compete with TikTok and attract younger users. By serving up more content from outside a user's network, Facebook has seen a resurgence in user growth, particularly among 18-to-29-year-olds. The shift towards recommendations was driven by the popularity of TikTok and advancements in AI technology. Meta plans to further expand recommendations across its various features to provide a more personalized user experience.<sup>496</sup>
- Threads has finally launched its API for developers, allowing them to build experiences around the platform. With the new API, developers can publish posts, fetch content, deploy reply management tools, and access analytics. This move will help businesses and creators manage their Threads presence at scale. Meta plans to make the API widely available after a closed beta testing phase with selected partners. Third-party developers now can build social media experiences on Threads, which has over 150 million users.<sup>497</sup>
- Meta is rolling out its Meta Verified program for WhatsApp Business users in Brazil, India, Indonesia, and Colombia. The program offers subscription plans starting from \$14 a month and provides businesses with a badge, impersonation protection, and a verified WhatsApp channel for marketing. Additionally, Meta is introducing the ability for users to call large businesses using WhatsApp through APIs and is launching a personalized messaging service for businesses. Meta aims to build a full suite of solutions for businesses to communicate with their customers and generate revenue through business messaging on WhatsApp.<sup>498</sup>
- The European Union (E.U.) has launched investigations into Meta, the parent company of Facebook and Instagram, over concerns about the potentially addictive effects of these platforms on children. The E.U. regulators argue that Meta's products exploit the vulnerabilities and lack of experience of minors, posing risks to their mental well-being. The investigations could result in fines of up to 6% of Meta's global revenue and require product changes. This action reflects a broader global effort to regulate social media platforms and protect minors. Meta has faced similar criticism and legal challenges in the United States. The E.U. investigations will focus on the addictive effects of the platforms, the effectiveness of age verification tools, and the privacy of minors in recommender systems.<sup>499</sup>
- Microsoft is partnering with Meta to bring "Windows Volumetric Apps" to Meta Quest headsets, enabling users to interact with 3D apps and objects. This collaboration signifies a move towards standalone VR experiences and extends beyond Xbox-themed Meta Quest.<sup>500</sup>
- AI startup Adept, led by former OpenAI and Google AI developers, has engaged in talks with potential buyers, including Meta Platforms. However, an acquisition is unlikely. The pressure on startups in the AI field is increasing due to high costs and competition from companies like Google, Meta, Microsoft, and OpenAI. Adept plans to launch an AI "agent" for automating personal computing tasks, like offerings from larger incumbents. Other startups, such as Stability AI and Reka AI, have also discussed potential sales. Adept faces competition from established players like Google, Microsoft, and OpenAI, as well as Meta's efforts in developing AI systems capable of reasoning and performing tasks.<sup>501</sup>

# Narrative | General Information

FY2024 | Q2

## OTHER RELEVANT INFORMATION

- Alphabet and Meta have approached major Hollywood studios to license content for their AI video generation software. They have offered millions of dollars for partnerships, aiming to create realistic scenes from text prompts. OpenAI, backed by Microsoft, is also having similar discussions. Studios are interested in using AI to reduce costs while protecting their work. Warner Bros. Discovery is open to licensing programs for training models, while Disney and Netflix are interested in other collaborations. The use of AI in Hollywood production is already underway, but new tools like Sora and Veo promise to create hyper-realistic clips based on brief descriptions, raising excitement and anxiety. Tyler Perry has put studio expansion plans on hold after witnessing Sora's capabilities. The music industry has taken a tough stance against AI use, with Universal Music Group suing an AI start up for copying song lyrics. Hollywood studios have yet to agree to major commercial relationships with tech companies for AI use.[502](#)
- Meta Platforms is considering introducing a paid version of its AI assistant, Meta AI. The premium tier may offer advanced features, but details on pricing are not yet known. Meta is also developing AI agents for tasks like coding and software development, as well as monetization agents for advertising. The company's reorganization includes a split between developer-focused and consumer-focused organizations within its generative AI group. Meta has rarely charged for its platforms in the past, but has hinted at plans to monetize AI services.[503](#)
- During the elections in India, WhatsApp-based fact-checking tip lines faced challenges in verifying misinformation. The tip lines struggled with timely and consistent verification, had difficulties with local languages, and showed inconsistencies in responses. Human intervention was necessary to avoid false positives, and operational challenges and spam content further complicated the process. The article emphasizes the need for improved technology and human oversight in verifying misinformation during elections.[504](#)
- A social app for creatives, Cara grew from 40k to 650k users in a week because artists are fed up with Meta's AI policies[505](#)
- Meta, the parent company of Facebook, plans to introduce free AI chatbots on WhatsApp for businesses, aiming to generate revenue from messaging apps. This move represents an early test of Meta's strategy to infuse AI into its apps. While investors have yet to fully endorse this approach, Meta has made progress in generating revenue from WhatsApp through features like WhatsApp Business Platform and click-to-message ads. The company plans to expand the use of AI chatbots for customer communication and allow users to create AI-powered ads on WhatsApp Business. Meta's AI strategy is seen as a way to boost sales and demonstrate the value of AI to investors.[506](#)
- Universal Music and Meta Announce 'Expanded Global Agreement' for AI, Monetization and More[507](#)
- Google monopoly ruling shows 19th-century law can police Big Tech [508](#)
- Google and Meta struck secret ads deal to target teenagers [509](#)
- Amazon Enlists TikTok, Pinterest in Quest to Sell Everywhere [510](#)
- Meta in Talks With Indian Tech Giant Jio Over Possible VR Deal [511](#)
- Meta to pay \$1.4 billion to settle Texas facial recognition data lawsuit [512](#)

# Assumptions

FY2024 | Q2

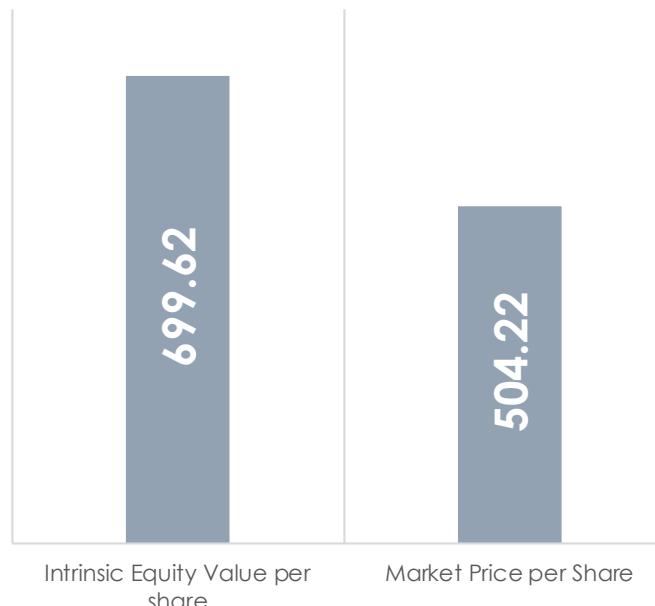
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	149,783	23.00%	4.36%	4.36%	Same revenue growth projections as previous quarter as advertising market continues to be the main driver for growth even though other segments have been growing at a high pace. Advertising expected to continue to deliver as Meta's AI efforts makes ads more efficient and better tools for advertisers. Expected continued high growth from messaging segment as more businesses adopt the use of tools like WhatsApp.
OPERATING MARGIN	44.39%	30.00%	45.00%	45.00%	Maintained same assumptions for margins, expecting lower margins in the growth phase as Meta continues to aggressive invest in their future bets. Expect to increase over time to similar margins as they have today as the company becomes more efficient and the monetization of other revenue streams materializes in a more significant way.
TAX RATE	14.44%	14.44%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.65	RIR =	31.96%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	25.98%	Marginal ROIC =	28.95%	13.64%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.19%	8.64%	8.64%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2024 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	184,233	41.51%	14.44%	65,431	52,923	12,509
2	226,607	38.63%	14.44%	74,901	65,095	9,806
3	278,726	35.76%	14.44%	85,266	80,067	5,199
4	342,833	32.88%	14.44%	96,436	98,482	(2,046)
5	421,685	30.00%	14.44%	108,234	121,133	(12,899)
6	502,952	45.00%	16.95%	187,955	54,178	133,777
7	581,131	45.00%	19.47%	210,603	52,119	158,484
8	649,797	45.00%	21.98%	228,145	45,778	182,367
9	702,353	45.00%	24.49%	238,660	35,037	203,623
10	732,976	45.00%	27.00%	240,782	20,415	220,367
<b>Terminal Value</b>	<b>764,933</b>	<b>45.00%</b>	<b>27.00%</b>	<b>251,281</b>	<b>80,302</b>	<b>170,979</b>

The Value	
Terminal value	3,991,733
PV(Terminal value)	1,390,970
PV (CF over next 10 years)	383,181
<b>Value of operating assets</b>	<b>1,774,151</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	58,080
<b>Value of firm</b>	<b>1,832,231</b>
- Debt value of lease	(18,121)
- Total Interest Bearing Debt	(37,991)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,207)
<b>Market Value of Equity</b>	<b>1,769,912</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,769,912</b>
Number of shares (primary)	2,530
Intrinsic Equity Value per share	<b>699.62</b>



**72.1%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2024**

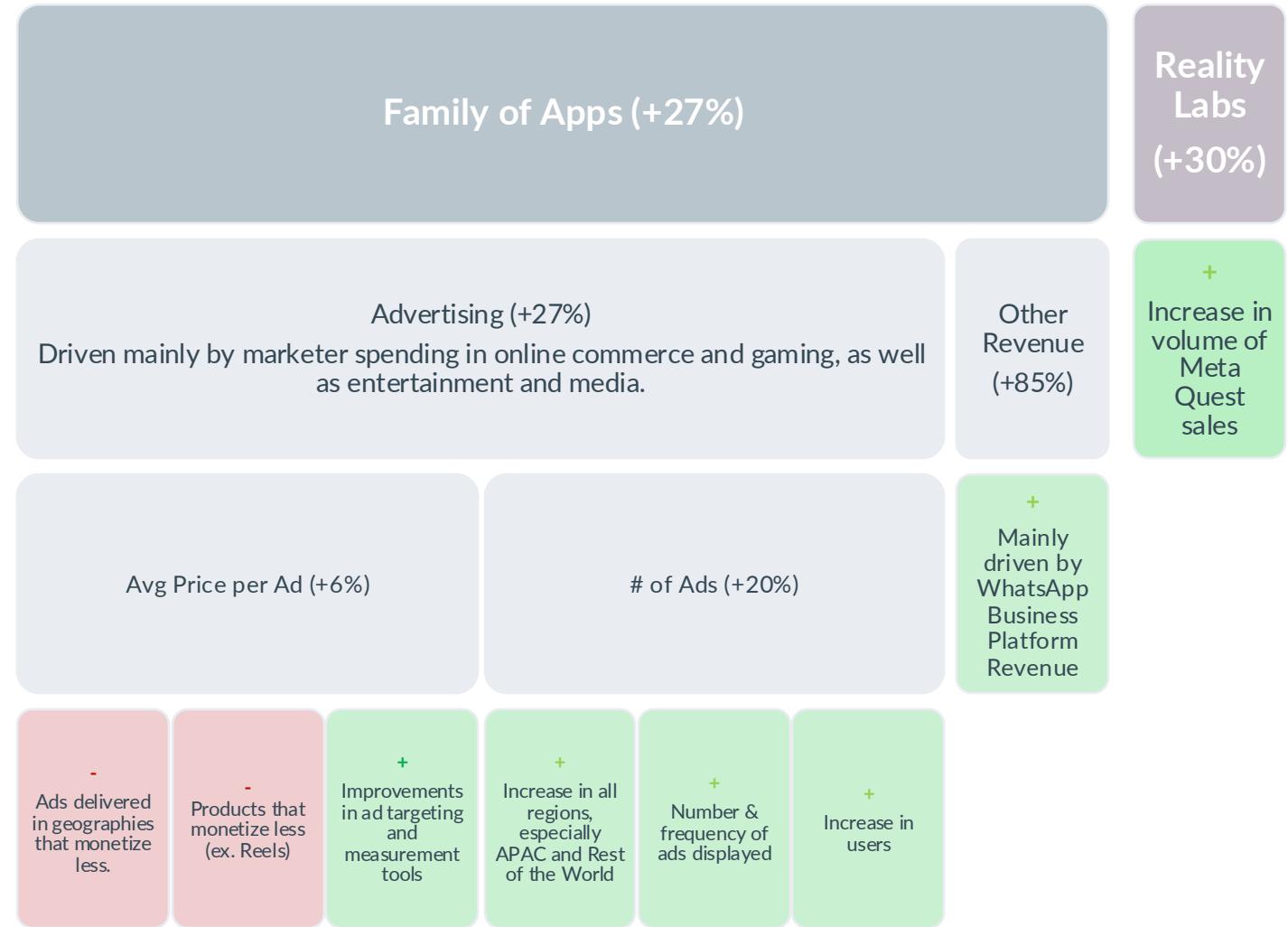
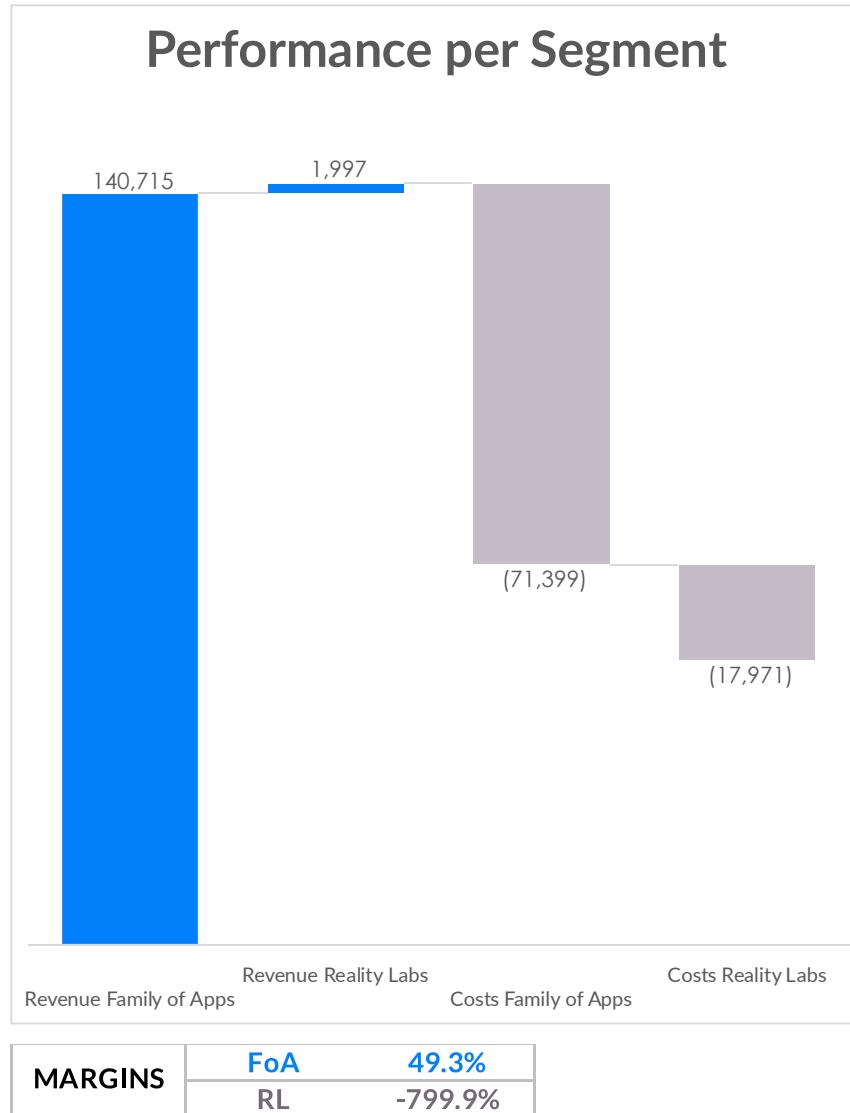
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# Q1 Results

January – March 2024

# Narrative | Segment Drivers

FY2024 | Q1



# Narrative | General Information

FY2024 | Q1

## COMPANY OUTLOOK

- Even with the layoffs, G&A expenses have been negatively impacted by increase in legal fees as the company finds itself involved in more lawsuits as well as regulatory restrictions and fines. The expenses have increased at a 5-year CAGR of ~10% with the biggest increase YoY being in 2022 with a 60% variation.
- Advertising continues to be the main revenue stream even as other business segments continue to grow at a high pace. AI investments have aided in being more efficient with their tools for advertisers as well as a stronger recommendation system.
  - +50% of content on IG and +30% of content on FB is AI recommended which increases overall time-spent and engagement.
  - Advantage+ Shopping & Ads Campaigns (advertiser AI tools) revenue has more than doubled since last year.
- Increased regulation will adversely impact their ad results as the company adjusts to the changes but will be able to mitigate the impact through the development of systems where they rely less on personal information and more in anonymized and third-party data. Significant investments in AI, including Gen AI, aid in the improvement of delivery, targeting and measurement capabilities.
- Currently investing in Reels as well as AI-powered discovery engine to recommend relevant content. Reels continues to grow in usage, it monetizes at lower rate than Feed or Stories. The company expected this to continue in the foreseeable future.
- Expects to continue heavy investments in AI as well as the Metaverse efforts resulting in continues losses for their RL segment.
- Focus will continue on increasing use and efficiency of all AI services. Have received positive feedback of Meta AI so far and are working on rolling it out to more languages and countries.
- Pleased with the Llama 3 release. The company has proven that it has the technical talent and resources to create state of the art models.
- Meta silicone has also allowed for more efficiency. Continue to build data centers in a fungible manner in order to increase flexibility of use cases to ensure their investment will remain functional over time.
- Other revenue growth in FOA driven by WhatsApp Business which has increased in adoption, especially in markets like the US.

# Narrative | General Information

FY2024 | Q1

## OTHER RELEVANT INFORMATION

- The European Commission has launched investigations into Alphabet, Apple, and Meta under the Digital Markets Act (DMA), specifically focusing on Meta's "Pay or Okay" model. The Commission is concerned about the model's compliance with Article 5(2) of the DMA and its potential impact on the accumulation of personal data. This investigation raises concerns about the logical validity of the EC's claims and its understanding of business models, data commingling, and compliance with the GDPR. The author argues that legislation should promote novel approaches to privacy and consumer choice while recognizing the benefits of personalized advertising.<sup>470</sup>
- Google has released two new AI models, Gemma and Gemini, as open-source alternatives to Meta's Llama models. Gemma is based on Google's proprietary Gemini models and outperforms comparable Llama models. This move challenges Meta's dominance in the industry and could benefit Google if developers make improvements to the open-source model.<sup>471</sup>
- The European Union is expanding its digital regulations to include almost all online platforms within the bloc, aiming to combat toxic content and counterfeit goods. The Digital Services Act (DSA) now applies to nearly all platforms, with exemptions for small businesses. The objectives of the DSA are to create a safer online environment, promote transparency, and hold platforms accountable. The EU has initiated an investigation into X (formerly Twitter) for potential DSA violations.<sup>472</sup>
- Apple and Google are facing full-blown EU investigations into their compliance with the Digital Markets Act, which could result in hefty fines. The European Commission is expected to announce the probes into their fees, terms, and conditions for app store developers. Meta Platforms Inc.'s proposal to charge a monthly subscription fee for ad-free access to Facebook and Instagram may also face EU scrutiny. The Digital Markets Act allows for penalties of up to 10% of a company's annual revenue and up to 20% for repeat offenders.<sup>473</sup>
- Microsoft has released a new open-source AI model called Phi-3, which achieves results comparable to OpenAI's GPT-3.5 model but with less compute power. The model, including Phi-3 mini, can run on smartphones and is appealing for developers and cost-conscious customers. Microsoft plans to make the models available on Azure and Nvidia's NIM cloud service.<sup>474</sup>
- Google has developed a technique called Infini-attention that allows LLMs (Language Model Models) to work with text of infinite length by extending their "context window" without requiring additional memory. This technique enhances model performance, coherence, and summarization tasks while reducing memory requirements. LLMs with infinite context have applications in customizing models, improving performance on specific tasks, and reducing engineering efforts in model customization.<sup>475</sup>
- Tech giants like Meta, Google, Microsoft, and OpenAI are racing to apply powerful AI technology to smart glasses and other wearable devices with forward-facing cameras. The development of multimodal AI, which can understand images, drawings, and hand gestures in addition to text and audio, has fueled this race. Companies are exploring the potential of voice-enabled AI assistants that can act as tutors, provide information about surroundings, and perform complex tasks. While there are still challenges to overcome, such as shrinking large language models for efficient use on small devices, the integration of AI into wearable devices could be transformative. Google, OpenAI, Microsoft, Apple, Meta, and Amazon are all actively working on incorporating AI into their respective devices and platforms.<sup>476</sup>
- Meta Platforms has released Llama 3, the latest version of its open-source large language model (LLM), which outperforms similar models from Google, Mistral, and Anthropic. Developers have praised Meta's progress and noted that Llama 3 is comparable to other leading LLMs. Meta plans to address feedback regarding the short context window in future updates. Unlike other startups, Meta opted for a traditional "dense" model architecture for Llama 3. The release reflects Meta's commitment to advancing AI technology and contributing to the open-source community. Additionally, the newsletter provides insights into recent tech industry deals and debuts, including funding rounds and upcoming events.<sup>477</sup>
- Meta has developed a new AI model, V-JEPA, trained on video footage to mimic human learning processes. V-JEPA excels at detecting and understanding interactions between objects in videos, aligning with Meta's augmented reality glasses project. The training method of V-JEPA utilizes a masking technique on video footage, and future development includes adding audio to enhance the model's learning experience. Meta plans to release V-JEPA under a Creative Commons noncommercial license, potentially democratizing AI model development.<sup>478</sup>
- Meta, formerly known as Facebook, is implementing its Meta A.I. smart assistant powered by LLaMA 3, a large language model, across its apps including Instagram, WhatsApp, Messenger, and Facebook. This extensive rollout aims to provide assistance and information to users, marking Meta's biggest AI push. The technology is open source, allowing collaboration and improvement, and future plans include integration into products like Ray-Ban Meta smart glasses.<sup>479</sup>
- Meta Platforms plans to release smaller versions of its Llama 3 large-language model next week, generating excitement for the upcoming launch. These smaller models will be cheaper and faster to run, but won't have multimodal capabilities like the larger version. Llama 3 aims to catch up with OpenAI's GPT-4 and be more open in answering contentious questions. The largest version of Llama 3 is expected to have over 140 billion parameters.<sup>480</sup>
- Meta is reducing funding for fact-checking efforts on WhatsApp, impacting the monitoring of election-related discussions and potentially impairing fact-checking of non-election content. The program, launched in 2018, allows users to flag potentially false content for verification by news organizations. Meta's decision to decrease resources for combating misinformation and the introduction of new WhatsApp features raise concerns about the spread of misinformation. While Meta will continue investing in the program, adjustments will be made annually based on feedback and product development.<sup>481</sup>

# Narrative | General Information

FY2024 | Q1

## OTHER RELEVANT INFORMATION

- Instagram users are expressing their outrage after discovering that Meta has started limiting recommended political content by default. The change, rolled out in February without direct notification to users, aims to avoid proactively recommending political content from accounts users don't follow. While users can still see posts from accounts they choose to follow, the change affects the system's recommendations. Influencers and news creators have criticized the update, claiming that it diminishes the platform's value for reaching users interested in political content. Meta's decision to limit political content aligns with its efforts to reduce the amount of political content shown on its platforms, as it aims to provide a better user experience and reduce misinformation.<sup>482</sup>
- The article discusses the proposed bill to ban TikTok in the US, raising concerns about free speech, trade, and national security. It highlights the lack of concrete evidence presented to justify the ban and calls for transparency and evidence to support such drastic measures.<sup>483</sup>
- Legislation to ban TikTok in the U.S. or force its sale is gaining traction, with a bill passing the House Energy and Commerce Committee. TikTok was caught off-guard by the push and faces the possibility of being shut down. U.S. tech and media companies are considering buying TikTok if ByteDance agrees to sell. TikTok sees two ways to stop the bill from becoming law: through opposition in the Senate and by challenging its legality. The bill calls for ByteDance to divest itself of TikTok or face a ban.<sup>484</sup>
- TikTok has filed a federal lawsuit challenging the constitutionality of a new law that requires a sale or ban of the app in the U.S. The lawsuit accuses the government of violating TikTok's First Amendment rights and alleges that the ban is an unconstitutional punishment. TikTok's parent company, ByteDance, has stated that it cannot sell its U.S. operations by the deadline, leaving litigation as its best hope. Supporters of the ban argue that TikTok poses national security risks. Past government restrictions on TikTok have been struck down by courts, but the First Amendment issues remain unresolved.<sup>485</sup>
- According to the IAB Ad Revenue Report, digital ad revenue growth in the US decelerated in 2023 due to inflation, rising interest rates, and industry layoffs. Programmatic ad revenue and certain channels like digital video, retail media, and audio experienced growth, while display and search revenue faced challenges. Privacy concerns continue to impact the industry, and companies are focusing on consumer opt-ins and data accessibility. The IAB is monitoring M&A activity and the potential of generative AI in advertising.<sup>486</sup>
- Meta Platforms, the parent company of Facebook and Instagram, is expected to report strong first-quarter earnings, driven by rebounding advertising business and the release of Llama 3, Meta's latest large-language model. Analysts anticipate a 26% YoY increase in revenue, with expectations of continued ad revenue growth and improved operating margins. However, Meta faces challenges from global events, shifts in advertising spending, and the need to balance AI investments with maintaining operating margins. The company's future growth depends on sustaining ad revenue growth, navigating uncertainties, and effectively integrating AI into its advertising business.<sup>487</sup>
- The AR/VR headset market experienced a surge in Q4 2023, with a 130.4% year-over-year growth, driven by new product launches and an easing of economic pressures. Meta regained market share, and despite competition from Apple and other vendors, Meta's low-cost, high-volume strategy is expected to maintain its lead. Overall shipments of AR/VR headsets in 2023 declined by 23.5% compared to 2022, but the market is expected to recover in 2024 with advancements in mixed reality, artificial intelligence, and display technologies.<sup>488</sup>
- Meta's decision to close CrowdTangle, a platform monitoring tool, has raised questions and criticism, particularly in an election year. The tool will be replaced by two new tools, but concerns have been raised about the functionality and usability of the replacements. The former CEO of CrowdTangle expresses worries about the impact on transparency, election integrity, and the spread of AI-generated content.<sup>489</sup>
- This article discusses the state of Meta (formerly Facebook) and compares it to other tech giants like Microsoft and Google. It examines Meta's advertising business, the impact of AI on the company's future, and the trustworthiness of Mark Zuckerberg as a leader. The article concludes that while Meta faces challenges and uncertainties, it is making strategic moves and investments that could pay off in the long run.<sup>490</sup>
- Meta has revealed details of two new 24,000-GPU AI clusters designed to support research and development in areas such as natural language processing, speech recognition, and image generation. The clusters feature upgraded hardware, different network infrastructures, and storage solutions. Meta emphasizes its commitment to open innovation and responsibility in AI development.<sup>491</sup>
- The possibility of TikTok being banned in the U.S. has prompted investors to anticipate potential outcomes. Meta Platforms, with its dominance in social media advertising and ownership of Instagram, could benefit if TikTok is banned, but limitations exist due to TikTok's relatively small contribution to Meta's global revenue. Snap, Netflix, and Disney+ are also mentioned as potential beneficiaries if TikTok is banned, but uncertainty remains among investors about TikTok's future moves.<sup>492</sup>
- Sierra, a company developing AI-powered agents, aims to revolutionize customer interactions by using conversational AI. They believe that AI agents will become as important as websites for companies, offering genuine and relatable experiences. Sierra's agents are designed to understand company values and procedures, and they use multiple AI models to ensure accurate information. The goal is to shift automated customer interactions from frustrating to satisfying. While concerns about job displacement and authenticity exist, Sierra believes that their AI agents can provide effective and empathetic interactions that customers will appreciate.<sup>493</sup>
- Autonomous AI agents have the potential to replace white-collar job functions by performing tasks such as logging into accounts, communication, and writing programs. They are already impacting coding tasks and companies like Cognition Labs have seen valuation growth by developing AI agents. Case studies show AI agents automating tasks like sales development and customer outreach. While AI agents currently operate with human supervision, the long term vision includes their increased autonomy and potential job displacement.<sup>494</sup>

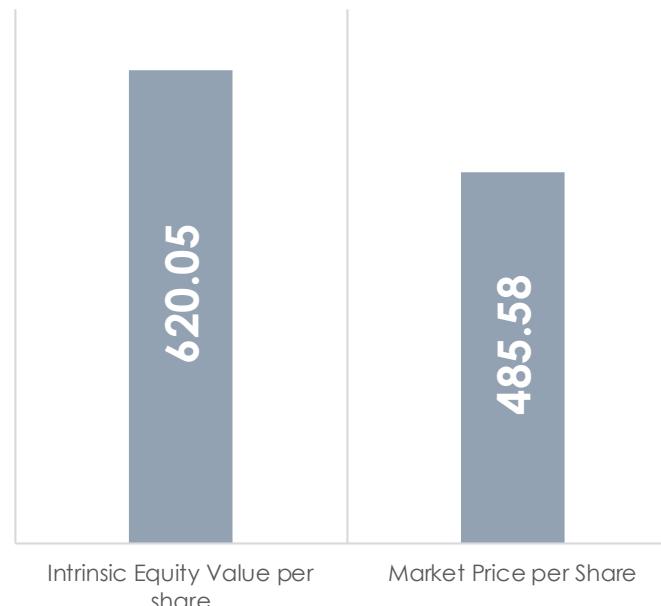
# Assumptions

FY2024 | Q1

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	142,711	23.00%	4.20%	4.20%	Slightly decreased revenue vs previous valuation as the company can be expected to grow at a slower rate in comparison to last year where the Chinese market was recovery from COVID. Advertising market continues to be the main driver for growth even though other segments have been growing at a high pace. Expected continued high growth from messaging segment as more businesses adopt the use of tools like WhatsApp.
OPERATING MARGIN	43.56%	30.00%	45.00%	45.00%	Maintained same assumptions for margins, expecting lower margins in the growth phase as Meta continues to aggressive invest in their future bets. Expect to increase over time to similar margins as they have today as the company becomes more efficient and the monetization of other revenue streams materializes in a more significant way.
TAX RATE	15.74%	15.74%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.66	RIR =	30.79%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	25.67%	Marginal ROIC =	29.45%	13.64%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.99%	8.64%	8.64%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

	<b>Revenues</b>	<b>Operating Margin</b>	<b>EBIT</b>	<b>EBIT (1-t)</b>	<b>Reinvestment</b>	<b>FCFF</b>
1	175,535	40.85%	15.74%	60,416	49,632	10,784
2	215,907	38.14%	15.74%	69,378	61,047	8,331
3	265,566	35.42%	15.74%	79,267	75,088	4,179
4	326,646	32.71%	15.74%	90,034	92,358	(2,324)
5	401,775	30.00%	15.74%	101,562	113,600	(12,038)
6	479,077	45.00%	17.99%	176,798	51,534	125,264
7	553,238	45.00%	20.24%	198,559	49,441	149,119
8	618,077	45.00%	22.50%	215,566	43,226	172,340
9	667,276	45.00%	24.75%	225,963	32,799	193,164
10	695,302	45.00%	27.00%	228,407	18,684	209,723
<b>Terminal Value</b>	<b>724,504</b>	<b>45.00%</b>	<b>27.00%</b>	<b>238,000</b>	<b>73,270</b>	<b>164,730</b>

<b>The Value</b>	
Terminal value	3,707,837
PV(Terminal value)	1,228,856
PV (CF over next 10 years)	343,582
<b>Value of operating assets</b>	<b>1,572,439</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	58,120
<b>Value of firm</b>	<b>1,630,559</b>
- Debt value of lease	(13,938)
- Total Interest Bearing Debt	(37,633)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,218)
<b>Market Value of Equity</b>	<b>1,572,769</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,572,769</b>
Number of shares (primary)	2,537
Intrinsic Equity Value per share	<b>620.05</b>



# NUMBERS

## FY2024 | Q1

**78.3%**

PRICE AS % OF VALUE

VALUATION YEAR

# FY2023

January – December 2023



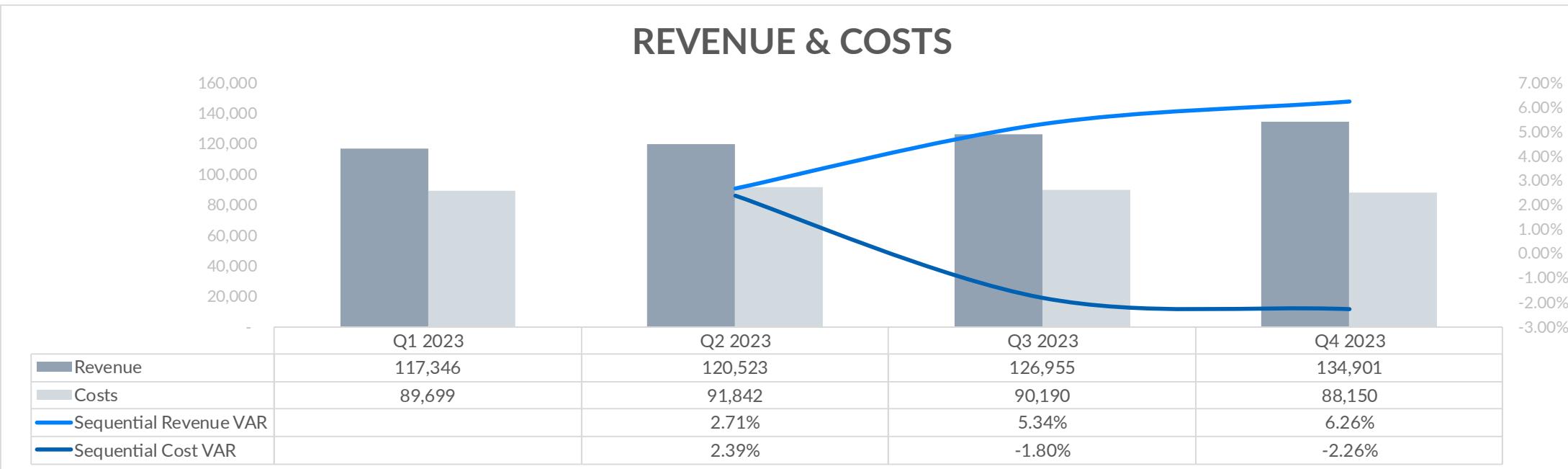


# General Narrative

- ∞ Meta's success hinges on artificial intelligence (AI), which powers its products and services for greater efficiency and future growth. Business messaging, especially on WhatsApp, is a key focus for revenue. AI-driven features like the discovery engine and tools for advertisers boost engagement and ad inventory. New features like bots and stickers further enhance user interaction and simplify ad management.
- ∞ Meta has streamlined its operations, allowing for continued investment in the future. However, the company grapples with a complex regulatory landscape, potentially leading to increased legal costs, fines, and app modifications. Ambiguous regulations pose further challenges, leaving Meta vulnerable to hefty penalties. Additionally, government scrutiny regarding the impact of its platforms on minors persists, with accusations of intentional harm.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5-year CAGR was 17.53% as Meta has grown into the social media behemoth it is today. As Meta explores new areas of growth and opens new monetization options, growth can be expected to remain in the double digits. Even with these positive prospects, it is currently facing issues with public scrutiny, reputational damage and more rigorous regulation which can negatively impact their revenue.

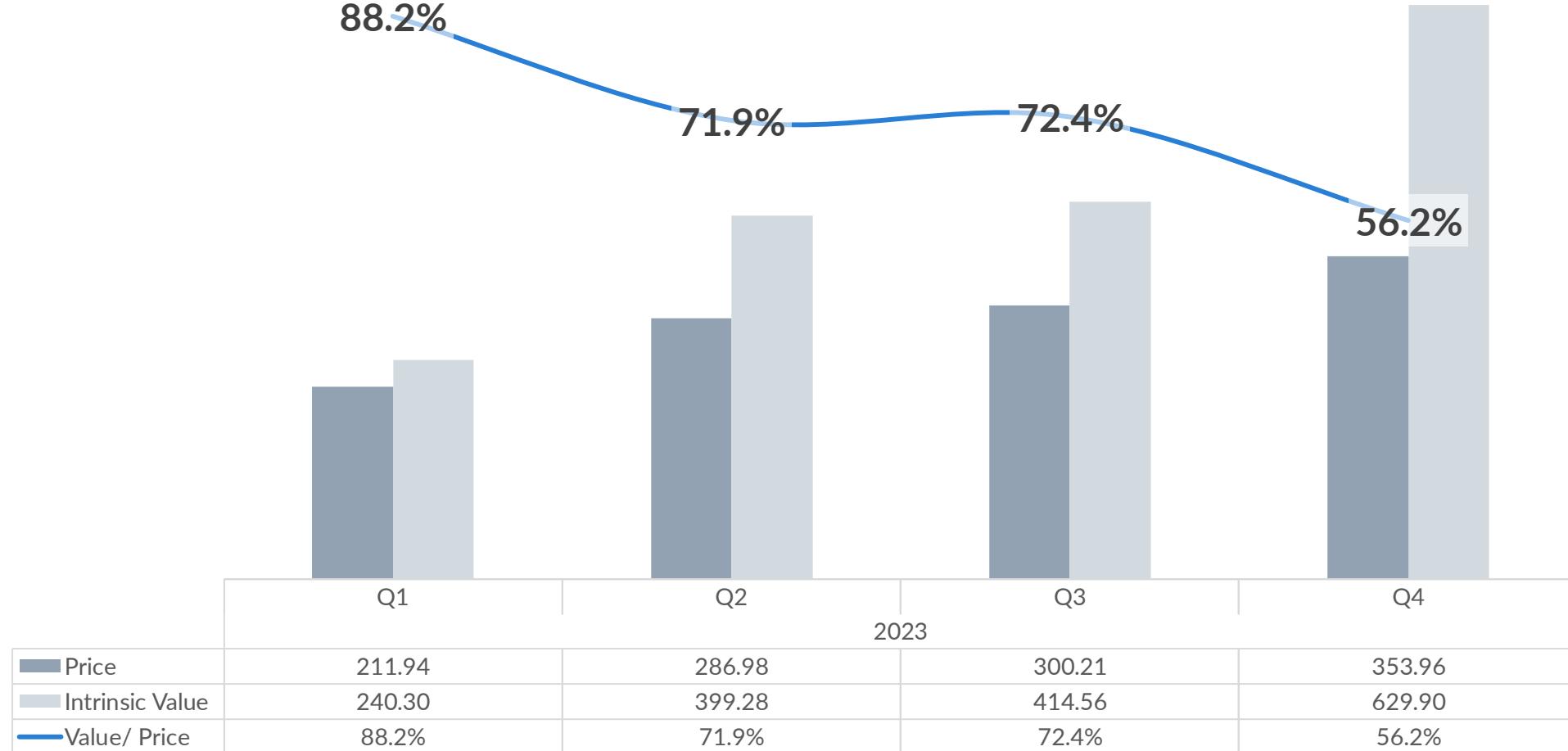
Costs 5-year CAGR was 17.21% as Meta has been heavily investing in their future growth. The cost for future years can be expected to decrease as Meta has focused on becoming a leaner company in order to be able to give back to shareholder while they continue to make aggressive investments in the future.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Tough regulatory environment persist as regulation such as the EU's DSA get approved. Violators of the DSA can face up to 6% of global annual revenue in fines.
- ∞ Meta launches Threads, an app for text-based updates and public conversations where communities come together to discuss topics of interest.
- ∞ Release of Llama 2 + collaboration with Microsoft.
- ∞ Announced Quest 3 – the first mixed-reality device that will become mainstream.
- ∞ Issues with child safety rise as its discovered that pedophile users are using the apps to connect with children. Meta also under scrutiny as its being accused of intentionally making their apps addictive for minors.
- ∞ Announced in Meta Connect: Quest 3, RayBan AR glasses, Meta AI, AI studio Platform, Emu Image Creation Model + Business & Creator AI.
- ∞ Meta implements a paid version for users in the EU due to new regulation.
- ∞ Payment for first dividend is announced.
- ∞ Currently rolling out multimodal AI for RayBan glasses.
- ∞ Agreement with Tencent to sell VR headsets in China.
- ∞ Launch of Threads in Europe during the end of the year.

# Intrinsic Value vs Price





FISCAL YEAR  
**2023**

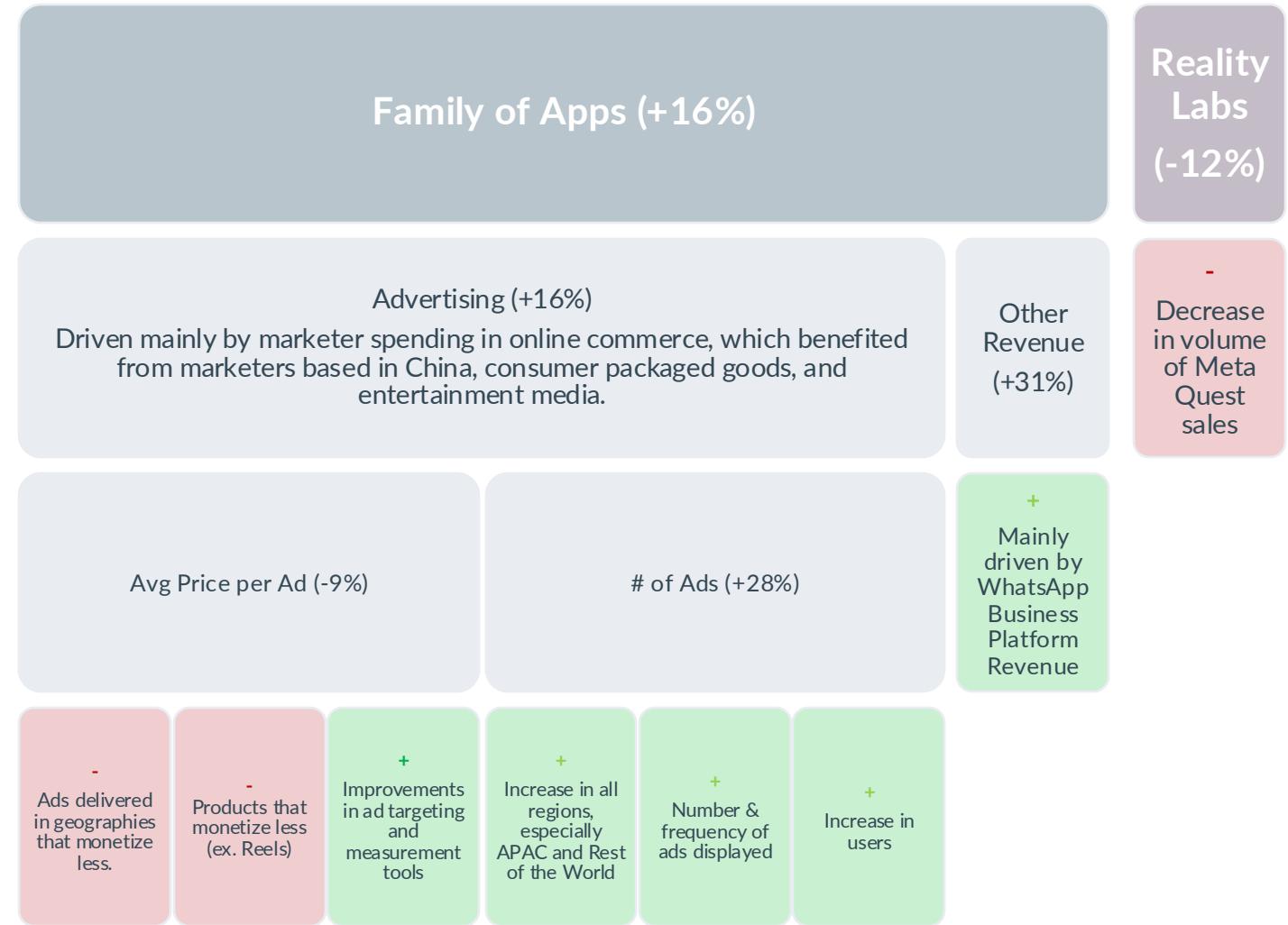
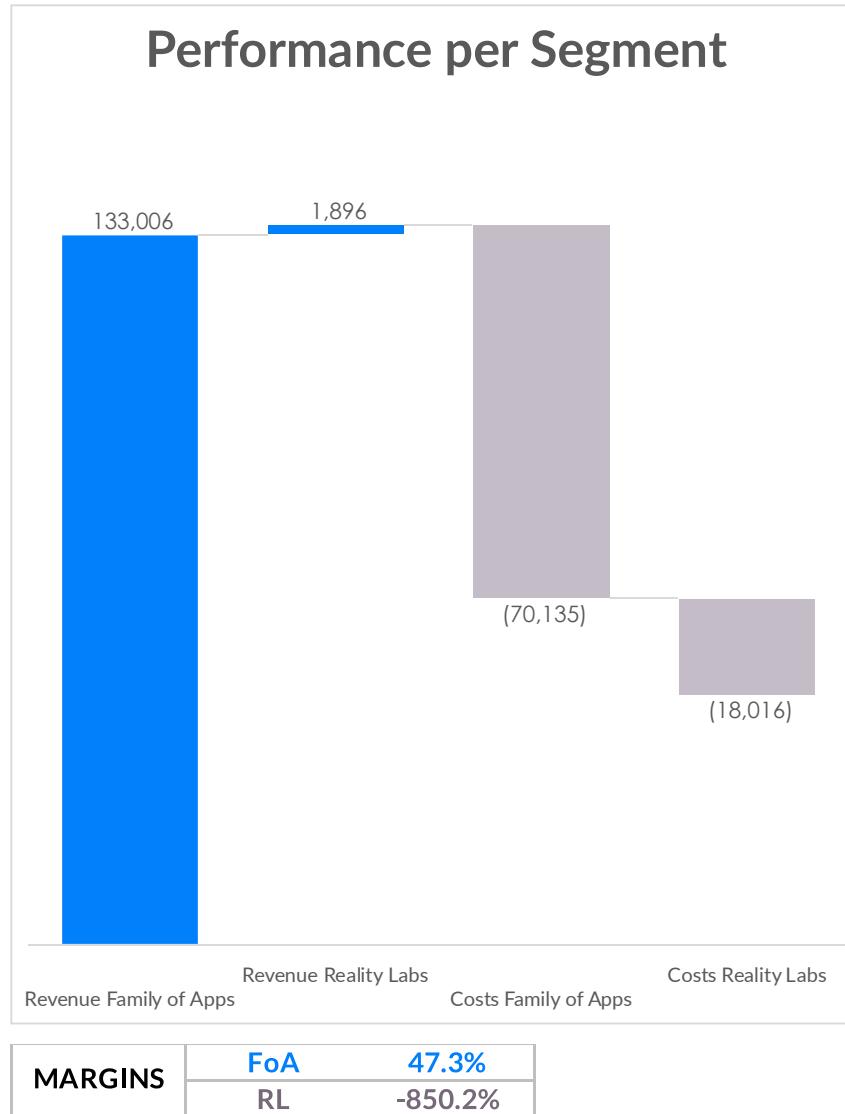
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# **Q4 Results**

October - December 2023

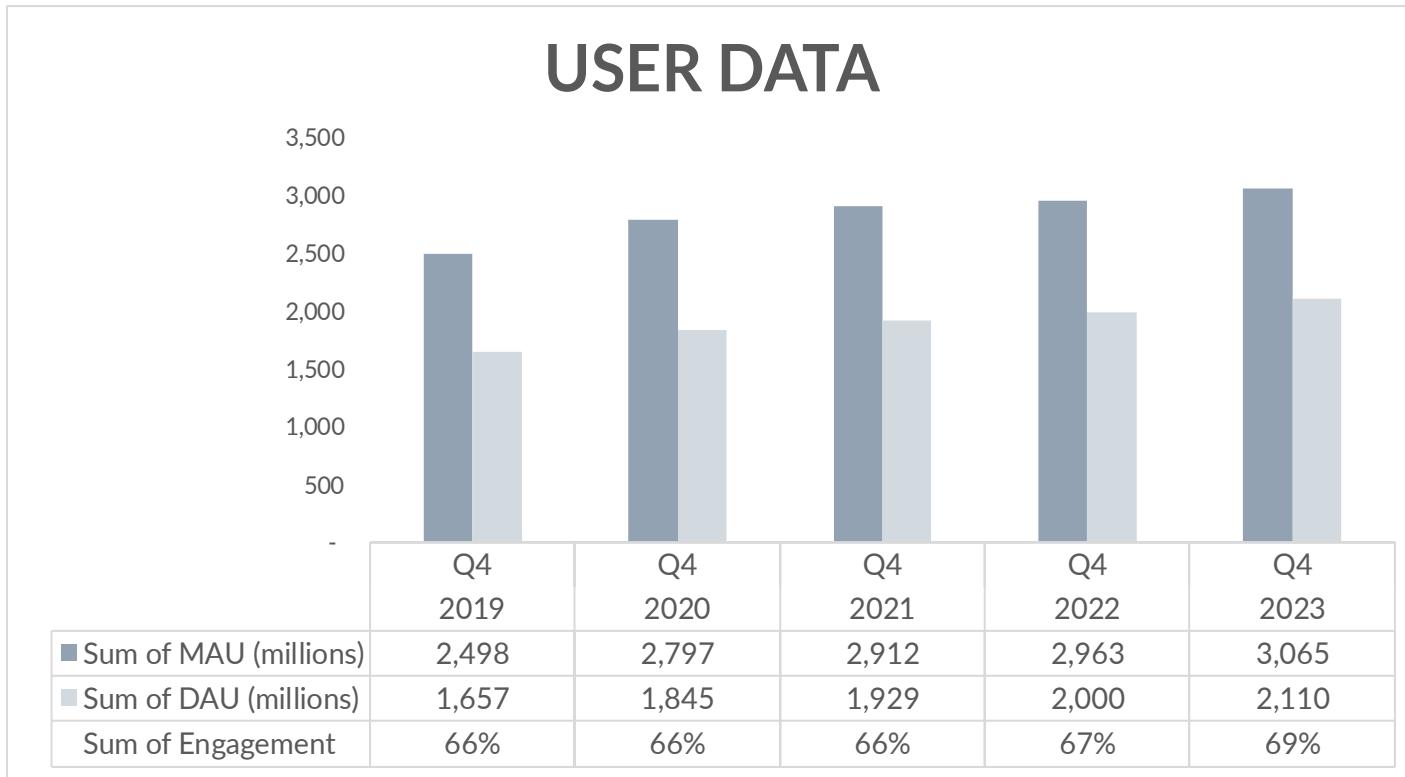
# Narrative | Segment Drivers

FY2023 | Q4

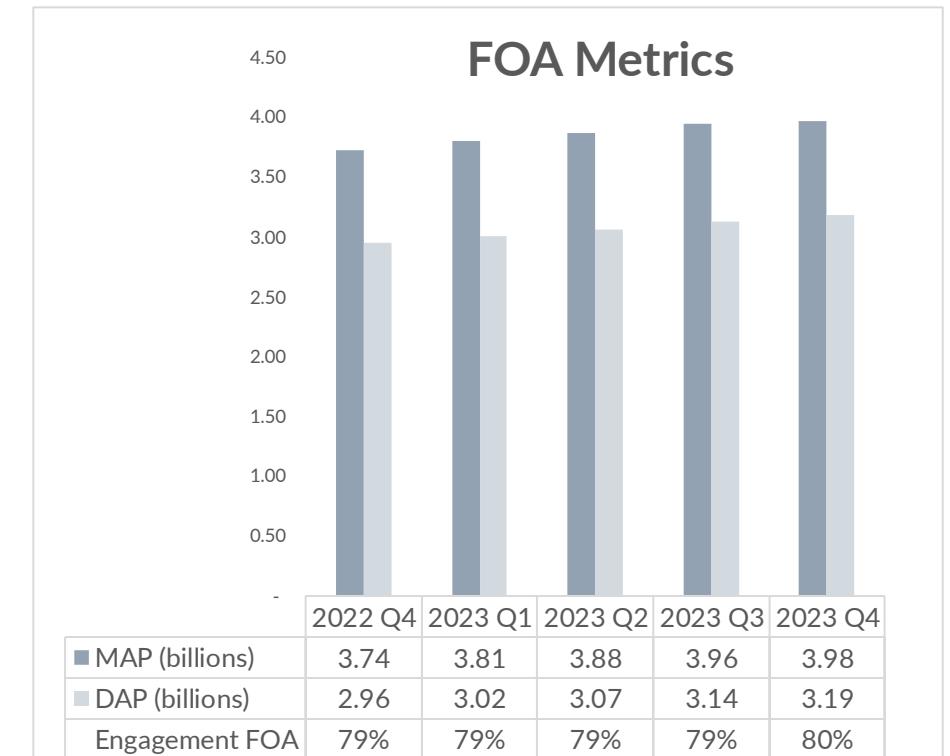


# Narrative | User Data

FY2023 | Q4



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2023 | Q4

## COMPANY OUTLOOK

- The company will focus on 6 key investments: AI, the Metaverse, discovery engine, monetization of products and services, regulatory readiness, and enhancing developer efficiency to build, iterate and optimize products quickly.
- AI investments support initiative across products and services, helping power the system that rank content in their apps, their discovery engine that recommends relevant content, the tools advertisers use to reach customers, the development of new generative AI experiences, and the tools that make their product development more efficient and productive.
- The company expects Reality Labs to operate at a loss for the foreseeable future.
- Meta currently faces a changing and more restrictive regulatory environment which may require the company to change or limit how they operate. Apart from increasing legal expenses, the changes may negatively impact their advertising revenue. Regulations may also impact AI, where Meta has been making important investments over the years and plans to continue investing in this area.
- On February 1, 2024 Meta announced the initiation of their first ever cash dividend program. This cash dividend of \$0.50 per share of Class A common stock and Class B common stock (together, the “common stock”) is equivalent to \$2.00 per share on an annual basis. The first cash dividend will be paid on March 26, 2024 to all holders of record of common stock at the close of business on February 22, 2024.
- During 2023 and 2022, Meta recognized total pre-tax restructuring charges of \$2.84 billion and \$4.10 billion under our FoA segment, and \$612 million and \$515 million under our RL segment, respectively.
- Beginning in 2024, Meta will no longer report FB metrics independently.
- Overall revenue driven mainly by marketer spending in online commerce, which benefited from marketers based in China, consumer packaged goods, and entertainment media.
- Other revenue (+31%): mainly driven by WhatsApp Business Platform revenue.
- 37% YoY increase in legal-related accruals included in liabilities section. This estimate includes fines, settlements, or other losses in connection with legal and related matter, as well as other legal fees.
- The company has major goals around AI, specifically in building the most popular and advanced AI products and services so that everyone can have an AI assistant and/or product for every need + open-source model for developers.
- Meta sees general artificial intelligence as the theme of their future work.
- The company is building capacity for AI (including an important investment in H100s) as a lesson learned from Reels where they had underbuilt GPU capacity. Decided to build enough capacity for Reels and another Reels-sized AI service that they expect to emerge to avoid capacity issues in the future.
- Milestone in Reality Labs where they crossed \$1B in revenue in Q4 for the first time driven by Quest sales.
- Currently rolling new AI feature for glasses including multimodal AI. The glasses have had a better-than-expected performance in both sales and engagement. Meta’s partner, Essilor Luxottica is already planning on making more than expected due to high demand as well as significantly more retention than the first version of the glasses.
- Click-to-message ads continue to grow as well as paid messaging. Still see messaging as their next pillar for monetization growth.

# Narrative | General Information

FY2023 | Q4

## OTHER RELEVANT INFORMATION

- A former Meta employee raises concerns about the company's approach to harm, particularly regarding young users, prompting him to seek external avenues for change through legal action and congressional engagement.<sup>434</sup>
- Meta is restricting political campaigns and advertisers in regulated industries from using its new generative AI advertising tools due to concerns about the spread of election misinformation, a significant policy choice in the industry's approach to AI.<sup>435</sup>
- A whistleblower testified that Meta's top executives, including CEO Mark Zuckerberg, disregarded warnings about harms to teens on its platforms, fostering a culture of overlooking internal evidence while publicly downplaying the issue with carefully crafted metrics, amid bipartisan criticism from Congress and calls for legislation to rein in tech giants.<sup>436</sup>
- The Tech Coalition launches Lantern, a program allowing social media platforms to share signals indicating potential violations of policies against online child sexual exploitation and abuse, enabling collaboration among participating platforms for follow-up investigations and action, emphasizing the importance of collective efforts in combating such harms and committing to transparency reporting.<sup>437</sup>
- Meta has reached a preliminary agreement with Tencent to sell a new, more affordable version of its virtual-reality headset in China, tapping into a major market amid tightening regulations and competition, potentially reshaping the landscape of extended reality devices in the country.<sup>438</sup>
- Meta Platforms will allow political ads on Facebook and Instagram to question the legitimacy of the 2020 U.S. presidential election while preventing them from questioning ongoing and future elections, amid broader changes in campaign advertising policies ahead of the 2024 election, sparking debates over free speech considerations and impacting the dynamics of political discourse on social media platforms.<sup>439</sup>
- Meta has developed new tools for image editing and text-to-video generation, including Emu Edit for precise control over image manipulation via text instructions, and Emu Video for creating videos based on text prompts, aiming to streamline the creative process and enable users to express themselves more effectively.<sup>440</sup>
- Social media platforms are evolving into entertainment feeds resembling traditional television, where professional content creators thrive, while the role of individual users shifts towards amplifying and consuming content, reflecting a broader trend in the industry towards separating social interactions into private channels.<sup>441</sup>
- Meta Platforms has restructured its Responsible AI team, with most members transitioning to the generative AI team, raising concerns about the oversight of AI products beyond generative AI amid layoffs and shake-ups within the company.<sup>442</sup>
- Instagram has removed sponsored posts from feeds for ad-free subscribers, yet promotional content from influencers and brand-owned accounts persists, raising questions about the effectiveness and value of the ad-free experience amid concerns about data collection and subscription costs.<sup>443</sup>
- Meta is introducing the Meta Content Library and API to provide select researchers with easier access to publicly available data on Facebook and Instagram, aiming to increase transparency and facilitate meaningful research while complying with regulatory requirements and protecting user privacy.<sup>444</sup>
- Meta faces a legal complaint from 33 states, alleging that despite receiving over 1.1 million reports of underage users on Instagram, the company only disabled a fraction of those accounts, continuing to collect children's personal information without parental consent, potentially resulting in significant civil penalties.<sup>445</sup>
- Meta's algorithms on Instagram have been found to serve sexually suggestive content alongside advertisements for major brands to users who may have shown an interest in underage individuals, according to tests conducted by The Wall Street Journal, indicating a concerning issue with Meta's recommendation systems that could potentially contribute to the exploitation of children online.<sup>446</sup>

# Narrative | General Information

FY2023 | Q4

## OTHER RELEVANT INFORMATION

- Meta plans to launch Threads in Europe in December, expanding its market significantly and offering EU users the option of consuming content without creating a profile for posting, amid a backdrop of advertisers pausing spending on rival platform X due to controversial comments made by Elon Musk.[447](#)
- Advertisers are hesitant to resume spending on X, as Elon Musk's recent comments have fueled concerns about the platform's reputation and advertiser trust, with some pausing spending indefinitely.[448](#)
- Valve's Steam Link app is now available for Meta Quest headsets, allowing wireless streaming of VR games. [449](#)
- Meta executives openly share their AI technology, releasing open-source versions of their language models to gain advantages and rely on global developers for enhancements, while planning to charge big companies for usage, amid a global debate about AI transparency.[450](#)
- Tech giants Google, Meta, Microsoft, Snapchat, and TikTok have signed a Government Charter to combat online fraud, pledging measures like verifying advertisers, swiftly removing fraudulent content, and enhancing verification on peer-to-peer marketplaces and dating services within six months. This move is part of a crackdown on illegal ads, especially those targeting children, as online fraud constitutes about 40% of all crime in England and Wales, with a notable portion stemming from social media and fake websites.[451](#)
- Meta is expanding and updating its child safety features to protect kids, addressing concerns about its platforms recommending content sexualizing children. The company will place limits on how suspicious adult accounts can interact with each other, expand its list of terms related to child safety, and use machine learning to detect connections between search terms. Meta CEO Mark Zuckerberg will testify before the Senate on online child exploitation, and EU regulators have requested information about how Meta protects minors. Bumble and Match suspended advertising on Instagram due to explicit content and sexualized children.[452](#)
- Meta has received another request for information from European Union regulators regarding child safety concerns on Instagram, particularly related to the sharing of self-generated child sexual abuse material (SG-CSAM). The EU is assessing Meta's response to these concerns, and failure to comply could result in heavy sanctions. The company has been given a deadline of December 22 to provide the requested data.[453](#)
- Meta continues to struggle with child safety issues on Instagram and Facebook despite forming a task force in June. Tests by The Wall Street Journal and the Canadian Centre for Child Protection show ongoing problems with Meta's recommendation systems promoting accounts involved in underage-sex content. Despite some actions like removing certain hashtags, Meta's efforts remain inconsistent, extending to Facebook Groups and facing criticism for prioritizing objectives like reducing "advertiser friction" over traditional safety measures.[454](#)
- Instagram Threads, Meta's Twitter alternative, is outpacing X (formerly Twitter) in new downloads, with daily downloads reaching 620,000 from around 350,000 in early November, driven primarily by Meta's advertising efforts. India leads in new downloads for Threads, followed by the U.S., while X faces challenges due to a rebranding and advertiser exodus following controversial statements from owner Elon Musk.[455](#)
- IBM and Meta have launched the AI Alliance, comprising 50+ companies, research groups, and academic institutions, to promote open, safe, and responsible AI. The alliance will develop benchmarks, standards, and tools, prioritizing multilingual models to tackle societal issues, with participation from industry giants like Intel, Oracle, and Sony, alongside startups and academic institutions.[456](#)
- Meta has rolled out AI characters across its U.S. apps, like WhatsApp and Messenger, featuring enhanced Bing search support and improved memory to facilitate learning from conversations, aiming for deeper connections and extended conversational capabilities while following Generative AI Privacy guidelines, competing with apps like Character AI, which secured \$150 million in Series A funding.[457](#)
- Meta AI introduces new features like generating AI images in group chats and supporting Reels, enhancing engagement and improving search results. It also powers features such as post comment suggestions and community chat topic suggestions, while testing functions like creating birthday greetings and editing Facebook Feed posts. Additionally, it suggests replies in DMs for creators based on conversation tone and content.[458](#)

# Narrative | General Information

FY2023 | Q4

## OTHER RELEVANT INFORMATION

- Meta Platforms has launched end-to-end encryption as the default setting on Facebook Messenger, ensuring that only the participants of conversations can view their messages. While this move enhances privacy and security, critics express concerns about the potential impact on detecting illegal activities.<sup>459</sup>
- Microsoft has launched Phi-2, a cost-effective small language model that surpasses larger models from competitors, such as Meta and Mistral, in performance. Phi-2, trained on high-quality data, can handle tasks like text generation and image description, running efficiently on laptops or mobile devices, and is accessible via Azure.<sup>460</sup>
- After halting ads on X due to antisemitic content, Walt Disney and Comcast ramped up their advertising on Instagram, with Disney increasing spending by 40% and Comcast by around 6%, while Paramount tripled its expenditure on Snapchat. Data from Sensor Tower indicates that 51 of X's top 100 U.S. advertisers have stopped ad spending since Musk's acquisition, contributing to a 16% decline in monthly active users on the platform.<sup>461</sup>
- Meta Platforms will initiate trials of multimodal AI in its Ray-Ban smart glasses, offering users information about their environment via the glasses' camera through an opt-in early access program in the U.S. Additionally, Meta will introduce a feature allowing users to request real-time information from their AI assistant, which is partially powered by Bing. These advancements were revealed at Meta Connect, the company's developer conference, in September.<sup>462</sup>
- ByteDance is discontinuing its next Pico VR headset due to poor sales, signaling a retreat from direct competition with Meta. However, the company remains committed to a long-term VR project named "Swan" for a high-end headset. Despite its success in video apps like TikTok, ByteDance's venture into VR has been challenging, with Pico's market share lagging far behind Meta and Sony amidst an overall decline in the VR market.<sup>463</sup>
- Microsoft Office is now accessible on Meta Quest headsets, offering Word, Excel, and PowerPoint in VR through the Meta Quest store. Compatible with all Meta Quest headsets, the apps support Bluetooth keyboard and mouse usage, run efficiently on the cloud, and allow multitasking and side-by-side app usage. This collaboration between Meta and Microsoft aims to integrate Office, Azure, and Windows 11 into Meta Quest headsets.<sup>464</sup>
- TikTok is urging top ad-buying firms to boost their spending by 50-150% next year, aiming for minimum U.S. commitments of about \$500 million from each of the top six advertising holding companies, indicating confidence in its ad business. With expected ad revenue of nearly \$20 billion this year, TikTok's assertive strategy has yielded success, yet some advertising executives view its proposals as overly aggressive, with ongoing concerns about Chinese ownership and user data access.<sup>465</sup>
- A Harvard T.H. Chan School of Public Health study indicates that social media companies earned over \$11 billion in U.S. advertising revenue from minors in 2022, underscoring the necessity for government regulation to address youth mental health and harmful advertising practices, with YouTube, Instagram, and Facebook among the platforms with the highest ad revenue from minors.<sup>466</sup>
- Facebook has introduced a new "Link History" setting in its mobile app to track users' clicked links, potentially for targeted ads, amid increased tech regulations, privacy restrictions, and ongoing data harvesting practices by Meta, raising concerns about user privacy, the extent of protections, and reliance on other tracking methods like the Meta Pixel, while users have limited control over data usage through existing settings like "Off-Facebook Activity" and "Clear History."<sup>467</sup>
- WhatsApp's popularity is surging in the United States, marked by a 9% increase in daily users in 2023, attributed to its seamless integration with Android and compatibility with iPhone users, its utility in large messaging groups, appeal to businesses for customer communication, pivot to privacy, introduction of new features and desktop apps, and brand campaigns aimed at expanding its presence in the U.S.<sup>468</sup>
- Meta embraces competition with Apple's Vision Pro headset, banking on its Quest device to bolster its metaverse ambitions, despite some developers leaning towards Apple's design; the battle hinges on factors like price, software ecosystem, and user experience.<sup>469</sup>

# Assumptions

FY2023 | Q4

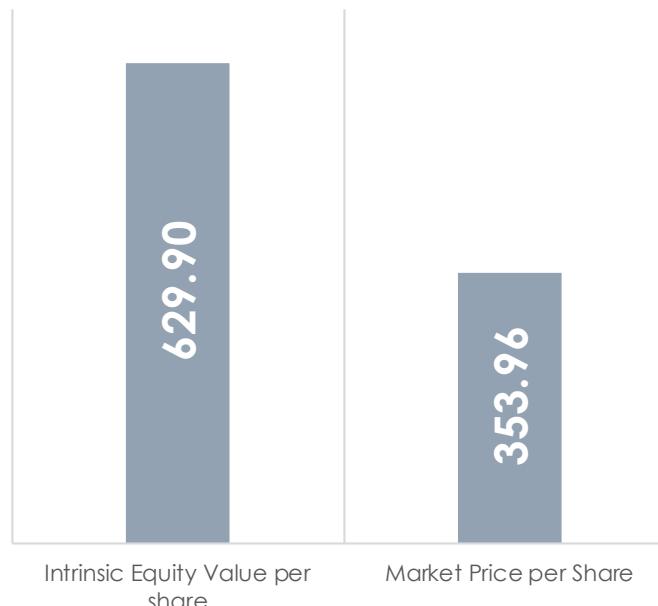
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	134,901	25.00%	3.88%	3.88%	Robust revenue growth with AI playing a pivotal role in driving expansion. Messaging is projected to remain a significant revenue driver, especially when combined with AI to offer extensive opportunities in customer service applications. Additionally, while Meta remains focused on long-term goals in the metaverse space, it is currently experiencing substantial traction in the augmented reality (AR) glasses market, further bolstering its revenue prospects.
OPERATING MARGIN	41.92%	30.00%	45.00%	45.00%	Meta Platforms aims to maintain healthy margins in the future through ongoing cost-control efforts and operational efficiencies. Expect a slight decrease in margins during its growth phase due to investments in hiring technical personnel for research and development (including expected future losses from RL), as well as potential regulatory costs. Increased margins during stable phase assuming that regulatory environments will stabilize over time. Slower cost increments as well as improved efficiency through the implementation of AI in internal processes can be expected.
TAX RATE	17.57%	17.57%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.64	RIR =	28.44%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	23.74%	Marginal ROIC =	29.50%	13.64%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.56%	8.64%	8.64%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2023 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	168,626	39.54%	17.57%	54,961	52,613	2,348
2	210,783	37.15%	17.57%	64,558	65,766	(1,208)
3	263,479	34.77%	17.57%	75,518	82,208	(6,690)
4	329,348	32.38%	17.57%	87,923	102,760	(14,837)
5	411,685	30.00%	17.57%	101,811	128,450	(26,639)
6	497,217	45.00%	19.45%	180,223	57,021	123,202
7	579,516	45.00%	21.34%	205,133	54,866	150,267
8	650,959	45.00%	23.23%	224,895	47,629	177,266
9	703,713	45.00%	25.11%	237,145	35,169	201,976
10	731,017	45.00%	27.00%	240,139	18,203	221,936
<b>Terminal Value</b>	<b>759,380</b>	<b>45.00%</b>	<b>27.00%</b>	<b>249,456</b>	<b>70,949</b>	<b>178,507</b>

The Value	
Terminal value	3,748,519
PV(Terminal value)	1,276,466
PV (CF over next 10 years)	322,561
<b>Value of operating assets</b>	<b>1,599,027</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	65,403
<b>Value of firm</b>	<b>1,664,430</b>
- Debt value of lease	(15,193)
- Total Interest Bearing Debt	(37,234)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,141)
<b>Market Value of Equity</b>	<b>1,605,861</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,605,861</b>
Number of shares (primary)	2,549
Intrinsic Equity Value per share	<b>629.90</b>



**56.2%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2023**

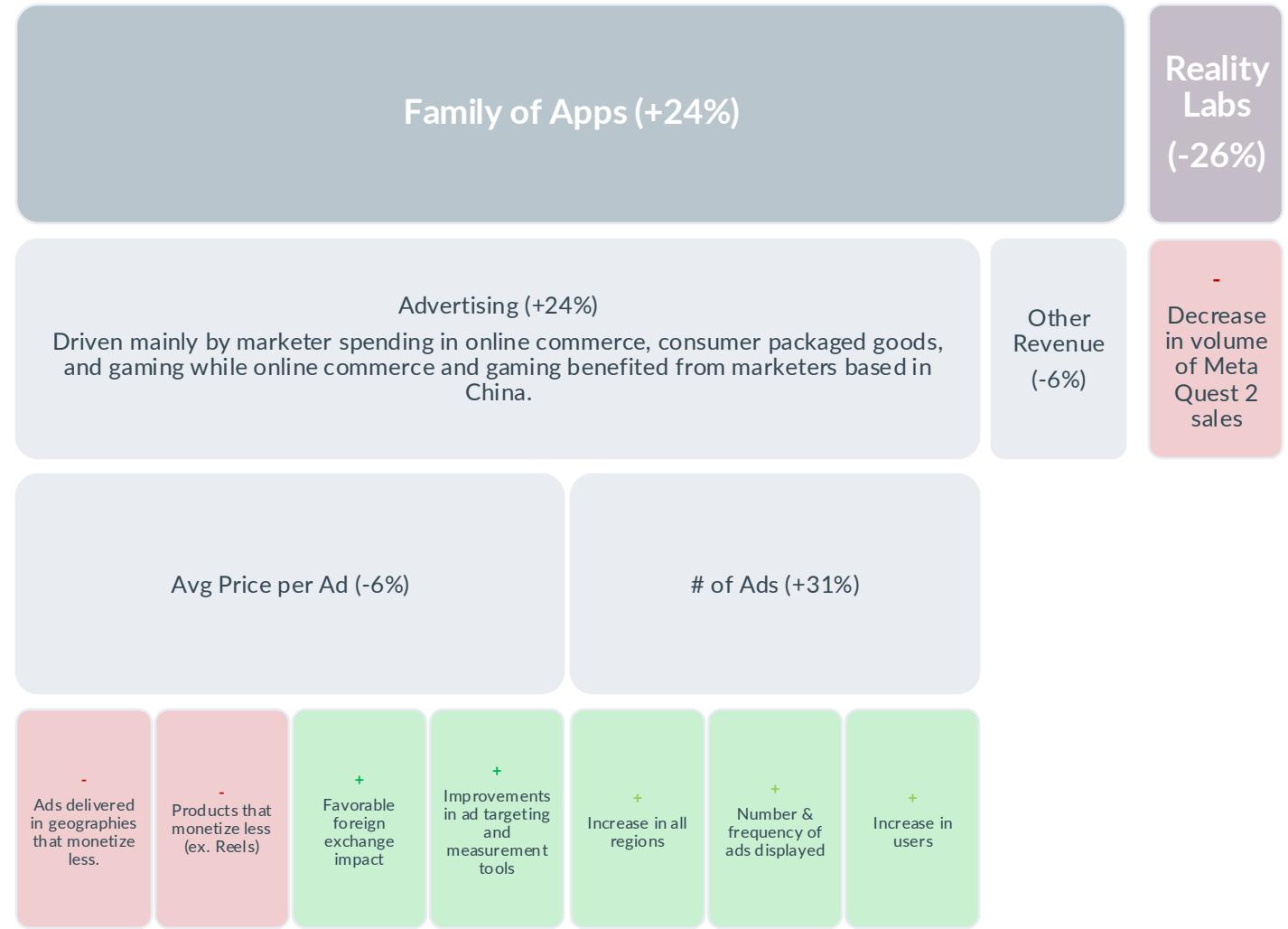
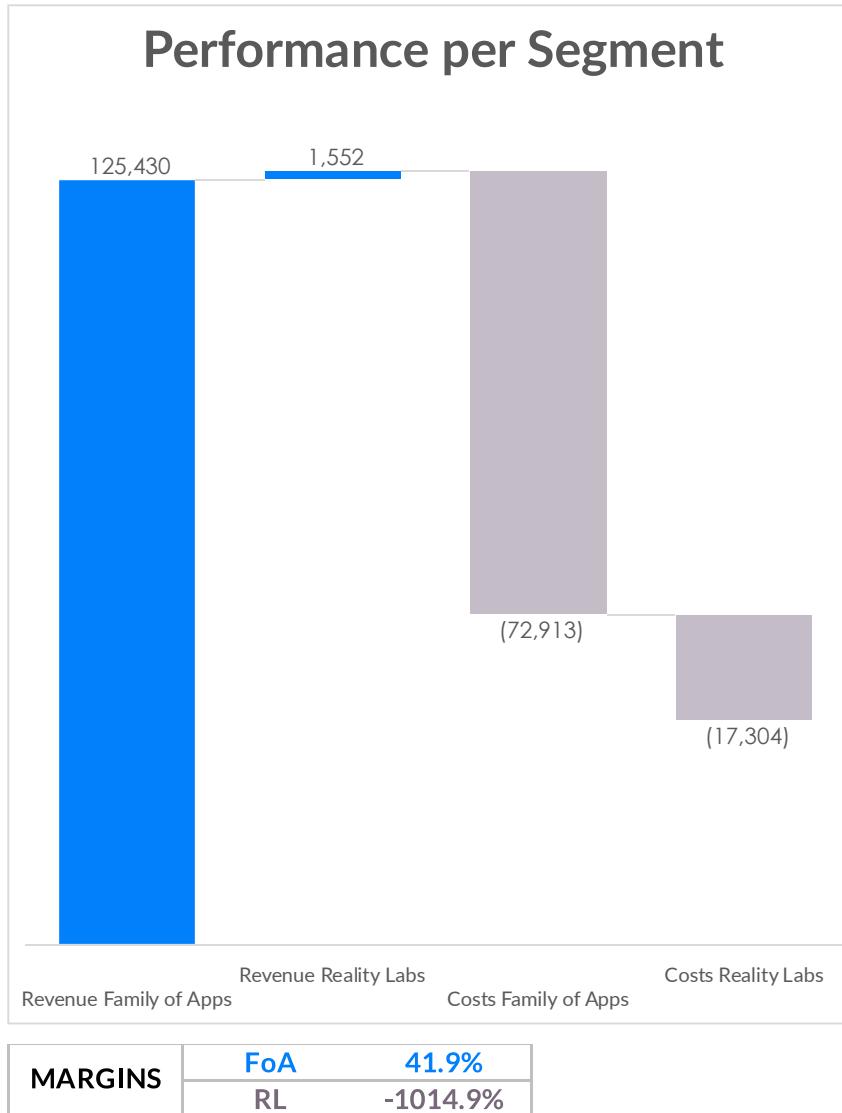
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# **Q3 Results**

July – September 2023

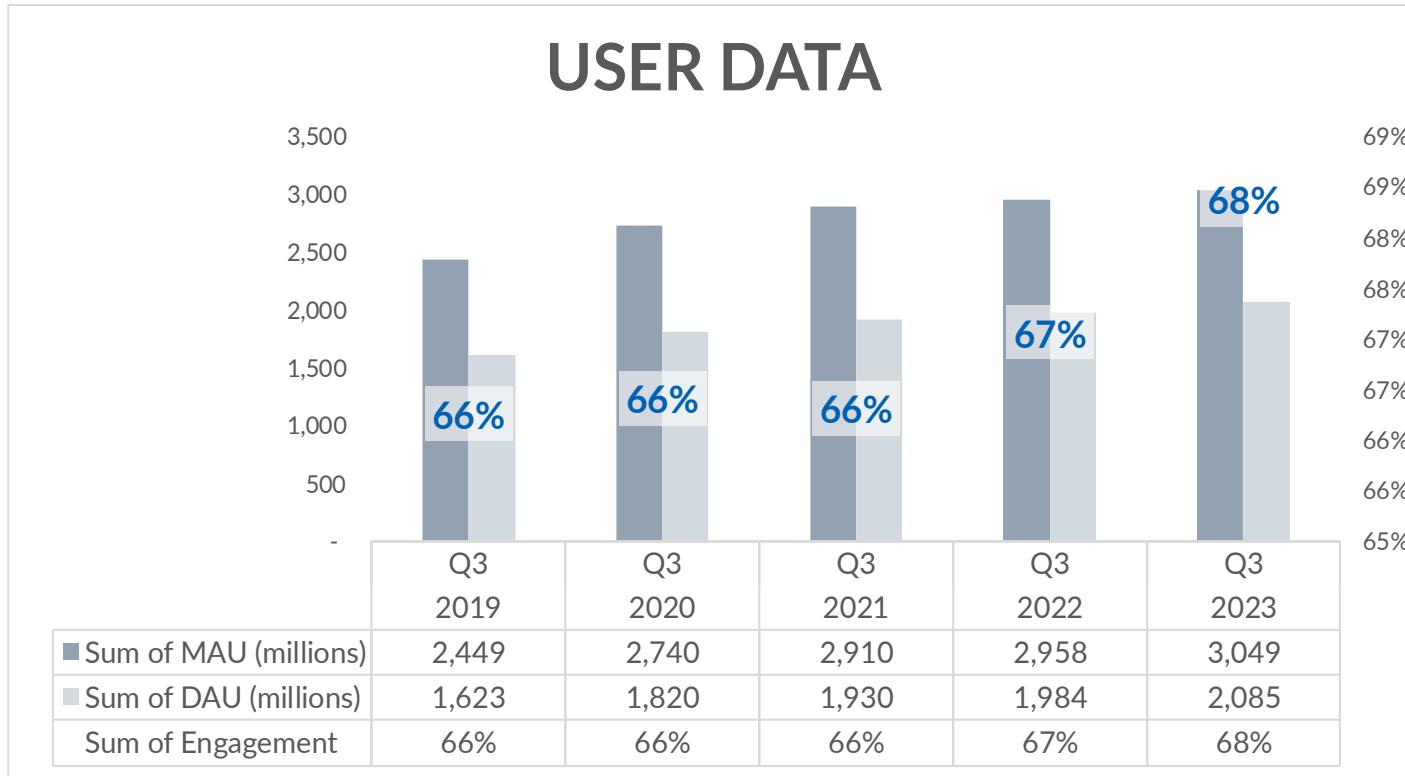
# Narrative | Segment Drivers

FY2023 | Q3

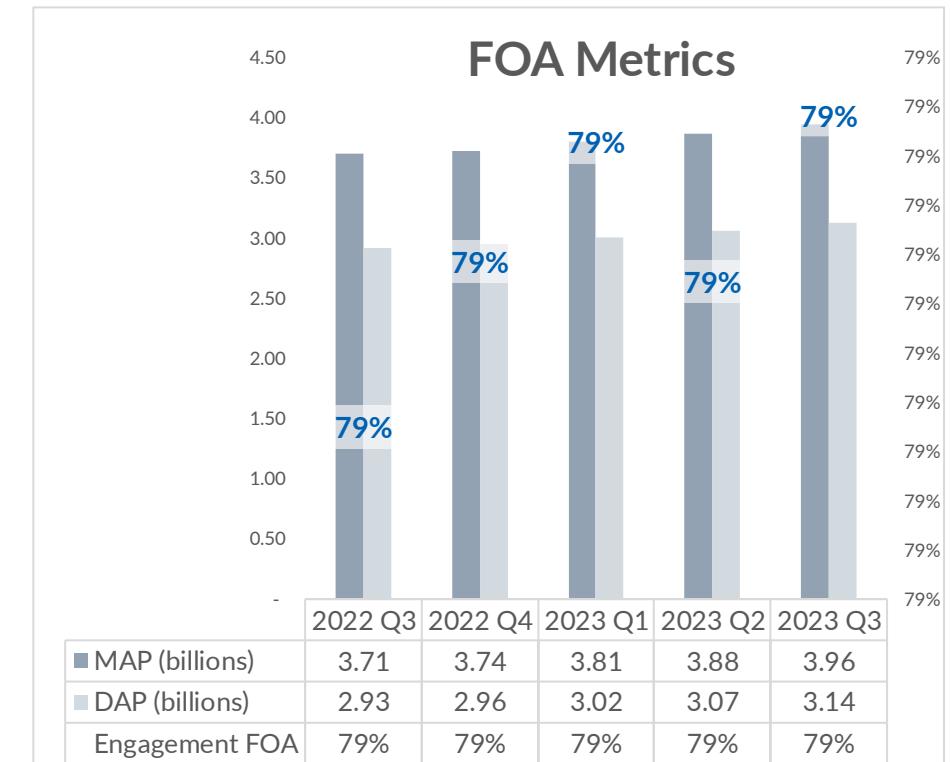


# Narrative | User Data

FY2023 | Q3



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2023 | Q3

## COMPANY OUTLOOK

- Announced many new products and initiative in Meta Connect including Quest 3, RayBan AR glasses, Met AI, AI Studio Platform, Emu Image creation Model + Business & Creator AI.
  - These initiatives will take time to implement and will be the focus for the company going forward and through 2024.
- Will continue with their operating efficiency motto as it creates a more disciplined and lean culture + provides stability to long-term initiatives through a very volatile world. Highest operating margin in recent quarters even while highly investing in the future.
- AI will be the biggest priority.
- Do not want to increment headcount (maintain efficiency) so will take employees from other areas but also mentioned a hiring backlog that will increase their expenses for 2024.
  - Part of the layoffs included teams swapping out certain skillsets for being able to hire others.
- Reels continues to drive results, increasing engagement – it is now net neutral before expectation.
- AI feed recommendation has driven increase in engagement + tools for advertisers with Advantage+ Shopping Campaigns reaching \$10B run rate & more than half of advertisers using Advantage+ Creative tools to optimize imagines and text in their ads creative.
- Business Messaging to become next pillar of business.
  - Has been successful so far in India (+60% of people on WhatsApp message a business app account).
  - Revenue from Click-to-Message ads in India has doubles YoY.
  - Has been mostly implemented in countries where labor is less expensive. With AIs, businesses will be able to have access to customer support and adopt business messaging.
  - Business Messaging drove results of other FoA with a +53% growth YoY from WhatsApp Business Platform.
- Continue to monitor regulations and restrictions as they might become a headwind to the business.
- Expect RL losses to increase as they continue to invest in the Metaverse – continues to be a priority.

# Narrative | General Information

FY2023 | Q3

## OTHER RELEVANT INFORMATION

- Meta's Ray-Ban smart glasses, launched almost two years ago, have struggled with low usage, as less than 10% of the purchased units are actively used, mainly due to connectivity and hardware issues, but Meta plans to release a second generation and views the device as a precursor to augmented-reality glasses despite initial challenges.<sup>400</sup>
- TikTok has introduced TikTok Shop, an e-commerce platform enabling creators to sell products directly on the app, fostering revenue generation and authentic reviews through video responses, with an affiliate program for commission earnings, distinguishing itself with a targeted algorithm for personalized product discovery.<sup>401</sup>
- Lawmakers criticize Meta Platforms for insufficient measures to prevent the sale of recalled products, including hazardous baby items, on Facebook Marketplace, emphasizing the risk to users and urging a response detailing efforts to address the issue by the end of the month.<sup>402</sup>
- Meta blocks news in Canada due to a payment law, impacting the local news industry, facing criticism during wildfires, and drawing condemnation from Prime Minister Trudeau, highlighting the challenge of balancing corporate interests and public information needs.<sup>403</sup>
- Meta takes down the world's largest covert influence operation, "Spamouflage," linked to Chinese law enforcement, aimed at promoting China's interests and discrediting adversaries, revealing other global takedowns, including the largest Russian campaign, amidst ongoing challenges in countering coordinated misinformation on social platforms.<sup>404</sup>
- Meta is considering paid versions of Facebook and Instagram without ads for users in the European Union, in response to regulatory scrutiny and privacy concerns, allowing users an ad-free alternative while complying with data privacy rules and reflecting the impact of new laws, regulations, and court rulings in Europe.<sup>405</sup>
- Meta is creating a more powerful AI system, expected to surpass Llama 2, with plans to release an open-source large language model in 2024, yet concerns arise about potential misuse and legal issues associated with its increased strength.<sup>406</sup>
- Under regulatory pressure, Meta shifts away from personalized ads in the EU, allowing users to choose basic ad targeting options and considering subscriptions to offset potential revenue loss, as the company grapples with stricter regulations globally and aims to address user privacy concerns following a \$410 million fine and a shift in its advertising model!<sup>407</sup>
- WhatsApp, with 400 million monthly users in India, introduces in-app payments for businesses to accept cards and UPI, aiming to enhance convenience, boost sales, and gather data, aligning with Meta's strategy to monetize its platforms and potentially ranking among the top digital payments apps in the country.<sup>408</sup>
- Meta is set to launch AI chatbots with distinct personalities across its social media apps, targeting young users and aiming to boost engagement, with potential productivity skills; however, challenges and doubts linger about revenue generation and potential toxicity, given past issues with similar ventures by Snap, as the company seeks to compete with TikTok and keep users on its platforms for increased ad opportunities.<sup>409</sup>
- Meta Platforms unveiled its Quest 3 mixed-reality headset, shipping Oct. 10 at \$499, emphasizing immersive content and partnering with Microsoft, alongside second-gen Ray-Ban smart glasses launching Oct. 17 for \$299, featuring livestreaming and integration with Meta AI. The company also introduced 28 AI chatbots, collaborated with celebrities, and presented EMU, an AI model for text-to-image prompts.<sup>410</sup>
- Roblox has launched on Meta Quest VR headsets, including Quest 2, Quest Pro, and the new Quest 3, following Meta's announcement in July, providing players with a more accessible and direct VR experience.<sup>411</sup>
- Meta announced Meta Quest for Business at its Connect conference, targeting enterprise AR applications and compatibility with platforms like Microsoft 365, set to launch in October.<sup>412</sup>
- Meta's VP of Infrastructure, Alexis Black BJORLIN, overseeing the development of AI chips, is leaving her position at the end of the month, with YeeJiun Song set to take over, as the company continues its efforts in AI hardware development.<sup>413</sup>
- Executives from ByteDance moving to TikTok, including top-level appointments, raise concerns among employees about the extent of ByteDance's influence on TikTok's operations and independence disclosures.<sup>414</sup>
- Meta is entering the AI chatbot space with Meta AI, a versatile assistant across WhatsApp, Instagram, and Messenger, offering features like real-time web results through a partnership with Microsoft's Bing and image generation. It is part of Meta's broader push into AI, leveraging its vast user base to gain a competitive edge in the chatbot market.<sup>415</sup>

# Narrative | General Information

FY2023 | Q3

## OTHER RELEVANT INFORMATION

- Meta Platforms trained its new Meta AI virtual assistant using public Facebook and Instagram posts, excluding private content to prioritize privacy, according to Nick Clegg, the company's top policy executive. The AI, unveiled by CEO Mark Zuckerberg, incorporates the Llama 2 language model and Emu for image generation, with safety restrictions, including a prohibition on generating realistic images of public figures.<sup>416</sup>
- Meta's latest AI tools, unveiled at the Connect event, introduce features like restyle and backdrop for AI photo editing on Instagram, and the creation of AI-generated chat stickers on multiple platforms. Meta is experimenting with labeling to differentiate AI-generated content. This trend aligns with similar developments in AI-powered content creation on platforms like YouTube.<sup>417</sup>
- Xbox's cloud gaming will be available in mixed reality on Meta Quest 3 starting in December, following the previous announcement of Xbox Cloud Gaming and Xbox Game Pass support for Meta Quest.<sup>418</sup>
- As global fact-checking faces challenges, the number of fact-checking operations has stagnated, social media companies show waning interest, and those involved face increasing harassment and threats; the field has matured with 417 active sites compared to 424 last year, raising concerns about government repression, political polarization, and dwindling support from tech companies.<sup>419</sup>
- The Supreme Court will examine whether state laws in Florida and Texas regulating social media platforms violate the Constitution, following conflicting appeals court rulings, with one upholding the Texas law and the other striking down Florida's statute, raising concerns about potential limitations on platforms addressing extremism and hate speech.<sup>420</sup>
- Meta researchers introduced Llama 2 Long, an AI model outperforming rivals in generating responses to lengthy user prompts, achieved through continual pretraining, adding 400 billion tokens from longer text sources, and optimizing the Rotary Positional Embedding (RoPE) encoding for improved performance in language tasks.<sup>421</sup>
- TikTok is experimenting with a \$4.99 per month ad-free subscription plan, confirming the test but expressing uncertainty about a wider release, introducing a potential shift from its reliance on advertising revenue.<sup>422</sup>
- Meta is proposing a subscription plan, "SNA," in Europe, giving users the option to pay around €10 a month on desktop or €13 on mobile for ad-free access to Instagram and Facebook, aiming to address EU rules on user consent for personalized ads and privacy concerns.<sup>423</sup>
- Meta is introducing generative AI features for advertisers, enabling customization of backgrounds, image expansion for various aspect ratios, and text variations, with early results suggesting potential time savings of up to five hours per week for advertisers.<sup>424</sup>
- Meta is paying notable figures, including Snoop Dogg and Tom Brady, substantial amounts—up to \$5 million over two years—to use their likenesses for AI characters on Instagram, WhatsApp, and Messenger, aiming to leverage the stars' popularity for the metaverse and set a benchmark for digital avatar licensing.<sup>425</sup>
- TikTok is launching Direct Post, a feature allowing third-party apps, including Adobe Premiere Pro and Twitch, to post content directly to TikTok, enhancing integration with options like setting captions and audience settings.<sup>426</sup>
- Meta acknowledges potential risks with its AI tools, emphasizing thousands of hours of testing for safety, continuous retraining, and involvement of leadership in anticipating legal, ethical, and cultural issues, as Europe moves ahead with faster AI regulation compared to the US.<sup>427</sup>
- Meta is intensifying enforcement against violent and misinformation posts amid the Israel-Hamas conflict, creating a special operations center, removing numerous violating posts, and temporarily adjusting content amplification thresholds.<sup>428</sup>
- The FCC has unanimously approved tech companies' plans, including Microsoft, Google, Apple, and Meta, to use the 6GHz band for wireless devices, potentially benefiting projects like AR glasses and enhancing connectivity freedom.<sup>429</sup>
- Meta's research team is launching Habitat 3.0, an advanced version of its AI simulation environment, along with the Habitat Synthetic Scenes Dataset and HomeRobot, to enhance embodied AI by training robots to interact with their environment and collaborate with humans on diverse tasks in both simulated and real-world scenarios.<sup>430</sup>
- TikTok increases its video upload limit from 10 to 15 minutes, further challenging YouTube's dominance in long-form content, though the shift may alter the platform's identity focused on short and entertaining videos.<sup>431</sup>
- A coalition of 41 states and the District of Columbia file lawsuits against Meta Platforms, alleging that the company intentionally designed Facebook and Instagram with addictive features that harm young users, claiming Meta misled the public about the dangers, marketed to users under 13, and seeking changes to product features.<sup>432</sup>
- Meta Platforms will introduce ad-free subscription options for Facebook and Instagram in Europe, priced at €9.99 (\$10.60) per month on the web and €12.99 (\$13.79) for iOS and Android devices, complying with new regulations on personal data use in the region.<sup>433</sup>

# Assumptions

FY2023 | Q3

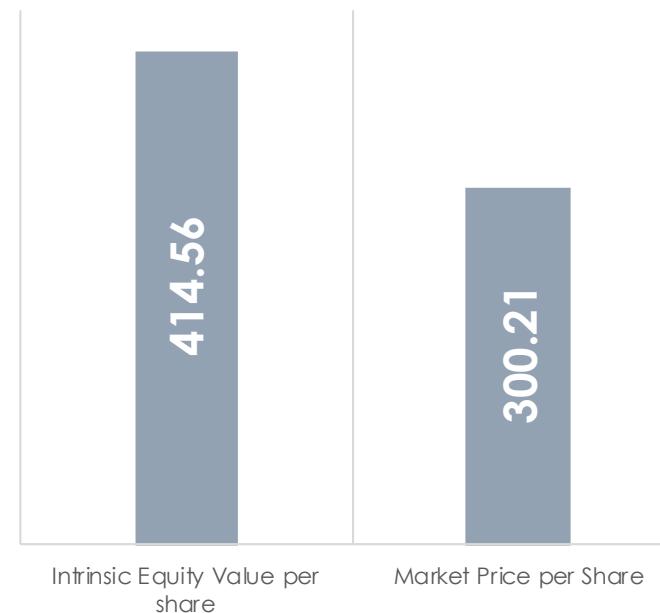
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	126,955	25.00%	4.61%	4.61%	Meta's future revenue growth is heavily dependent on the advertising sector, which remains the primary financial engine supporting the company's various initiatives. The recent achievement of neutrality by Reels suggests a sustained revenue stream, contributing to the overall financial stability. The growing significance of AI is evident in its integration into recommendation systems and emerging tools for advertisers, promising enhanced results and increased user engagement. The introduction of AI chatbots is expected to further elevate user engagement and open new business opportunities, particularly in the realm of business messaging, positioning it as a key pillar for Meta's future revenue growth.
OPERATING MARGIN	37.01%	30.00%	45.00%	45.00%	Meta's operating margin is positively influenced by AI initiatives and efficiency measures but faces challenges from Reality Labs' operating losses and expansion into less-monetized regions. In the near future, increased costs for Reality Labs and strategic investments may result in a temporary margin decline, with expectations of a significant rebound during a more stable phase.
TAX RATE	19.14%	19.14%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to Capital Ratio	0.62	RIR =	29.27%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	20.31%	Marginal ROIC =	29.97%	15.75%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		13.87%	10.75%	10.75%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Expected to decrease over time as these issues start to stabilize.

# NUMBERS

## FY2023 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
1	158,694	35.61%	19.14%	45,695	51,264	(5,569)
2	198,367	34.21%	19.14%	54,869	64,079	(9,210)
3	247,959	32.80%	19.14%	65,776	80,099	(14,324)
4	309,949	31.40%	19.14%	78,705	100,124	(21,419)
5	387,436	30.00%	19.14%	93,989	125,155	(31,166)
6	468,495	45.00%	20.71%	167,165	54,040	113,125
7	547,409	45.00%	22.28%	191,447	52,609	138,838
8	617,291	45.00%	23.85%	211,518	46,588	164,930
9	670,921	45.00%	25.43%	225,146	35,753	189,393
10	701,850	45.00%	27.00%	230,558	20,620	209,938
<b>Terminal Value</b>	<b>734,206</b>	<b>45.00%</b>	<b>27.00%</b>	<b>241,187</b>	<b>70,584</b>	<b>170,603</b>

The Value	
Terminal value	2,777,437
PV(Terminal value)	823,511
PV (CF over next 10 years)	243,099
<b>Value of operating assets</b>	<b>1,066,610</b>
- Tax due on trapped cash brought back	-
+ Cash & Marketable Securities	61,123
<b>Value of firm</b>	<b>1,127,733</b>
- Debt value of lease	(20,003)
- Total Interest Bearing Debt	(36,217)
- Preferred Stock	-
- Minority Interest (Non-controlling equity interest)	(6,142)
<b>Market Value of Equity</b>	<b>1,065,372</b>
- Options outstanding	-
<b>Value of Equity in Common Stock</b>	<b>1,065,372</b>
Number of shares (primary)	2,570
<b>Intrinsic Equity Value per share</b>	<b>414.56</b>
Market Price per Share	300.21



**72.42%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2023**

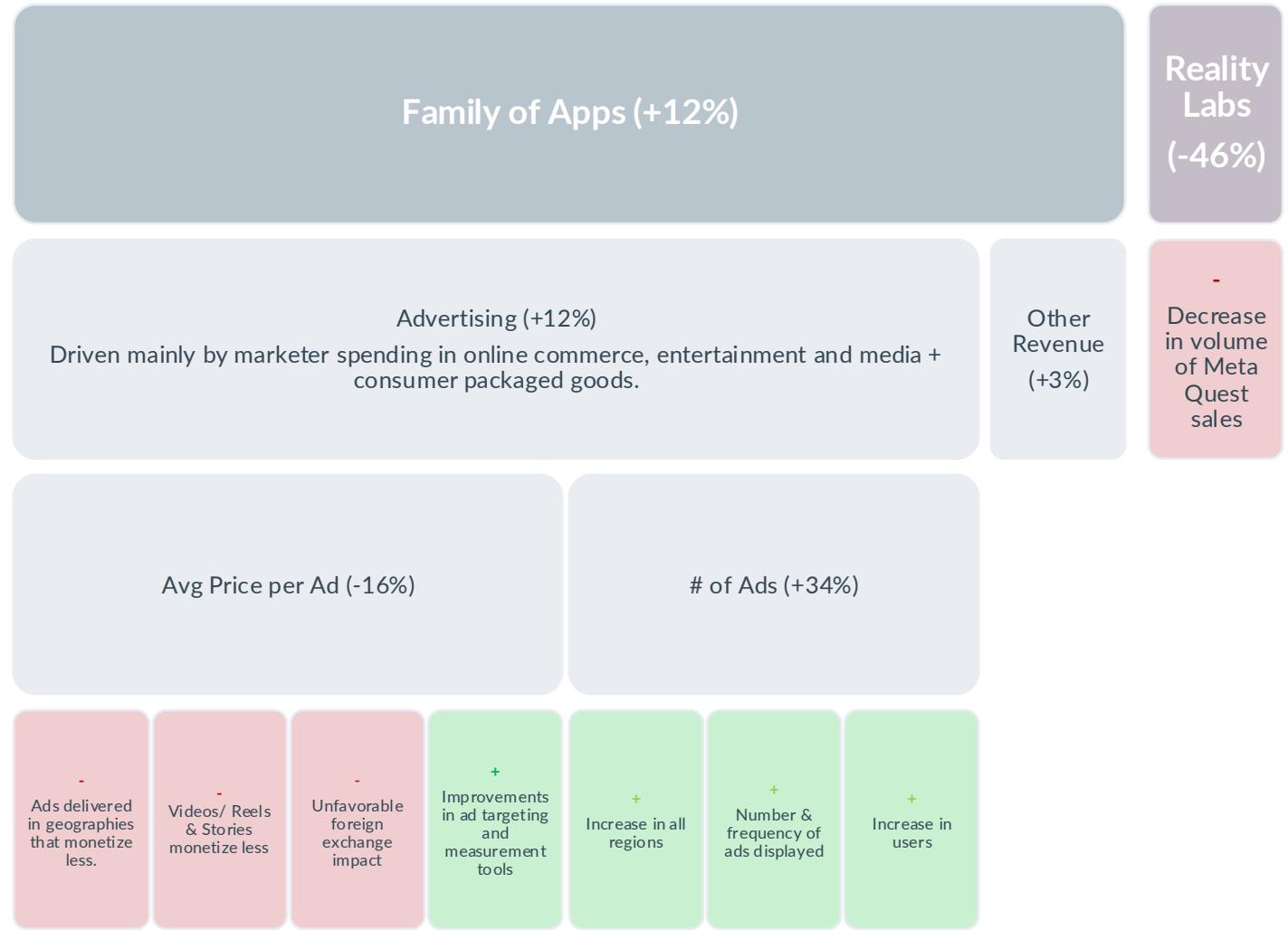
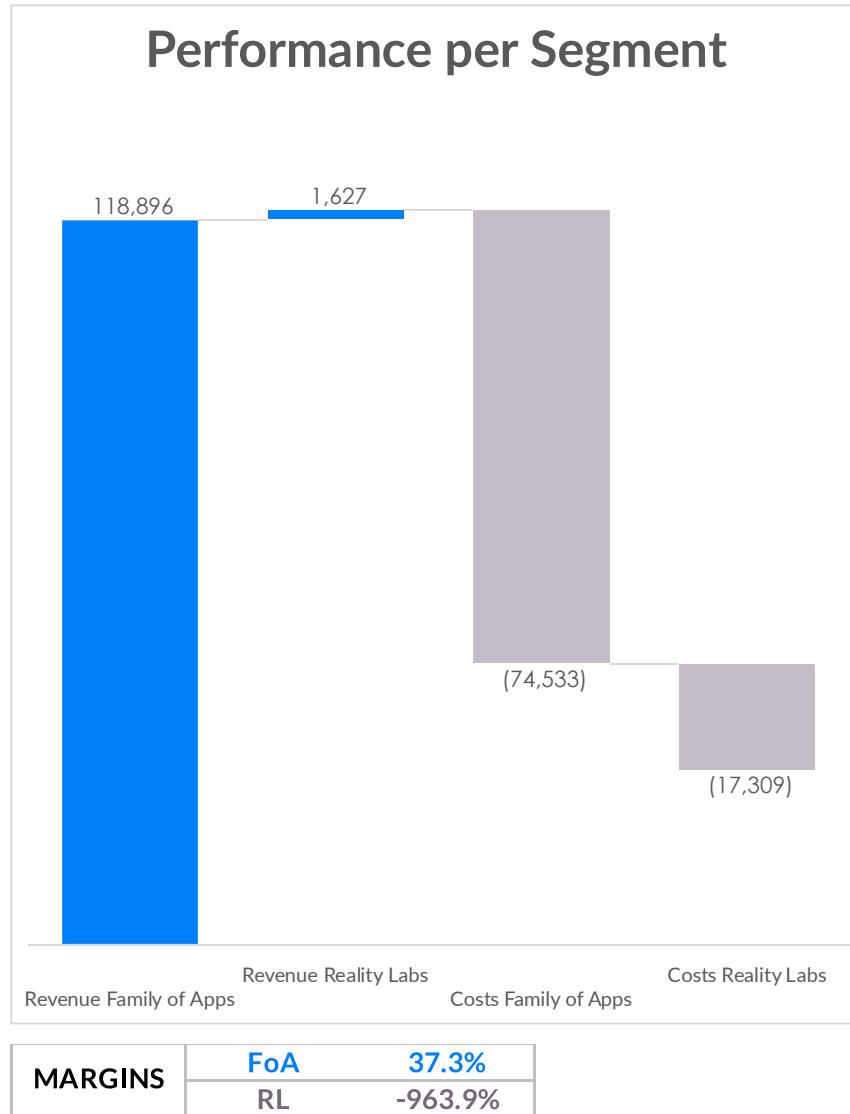
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# **Q2 Results**

April – June 2023

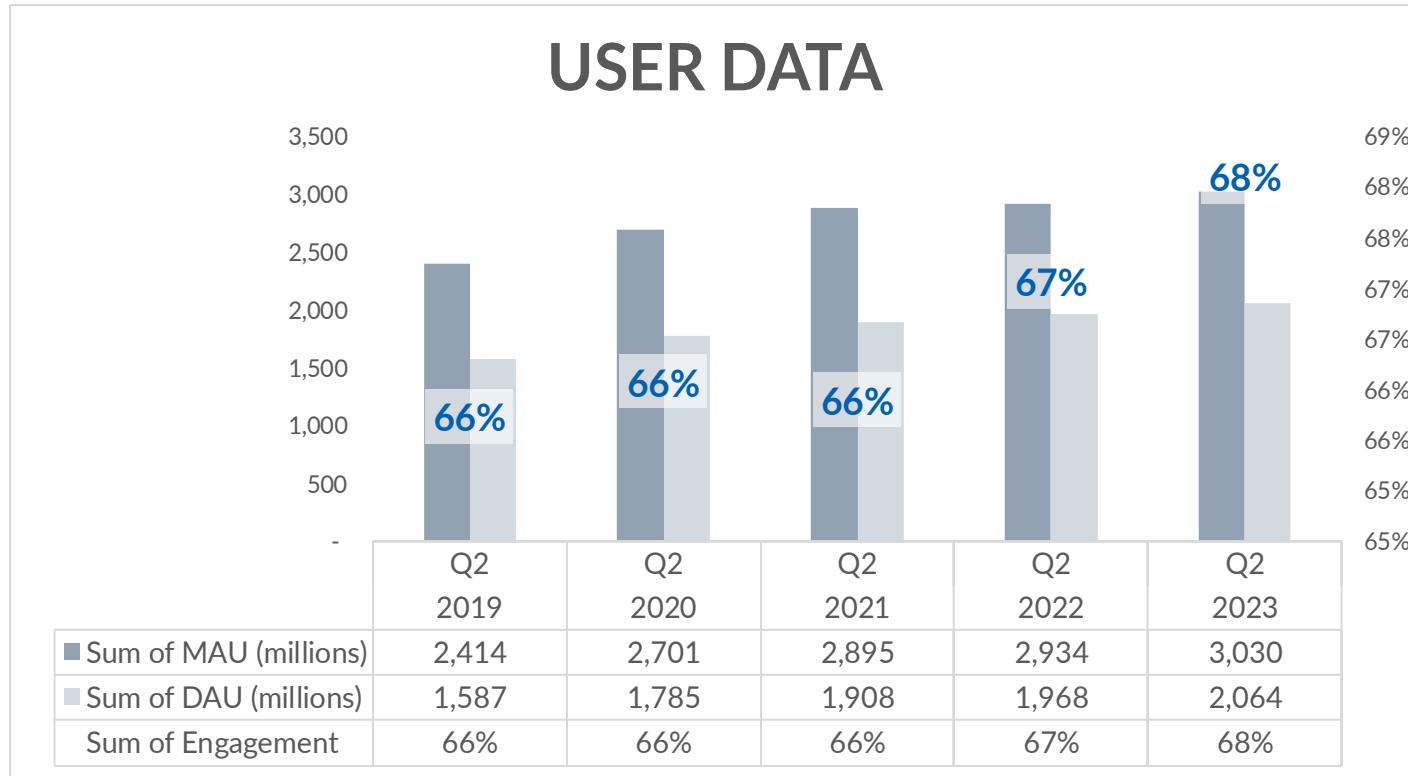
# Narrative | Segment Drivers

FY2023 | Q2

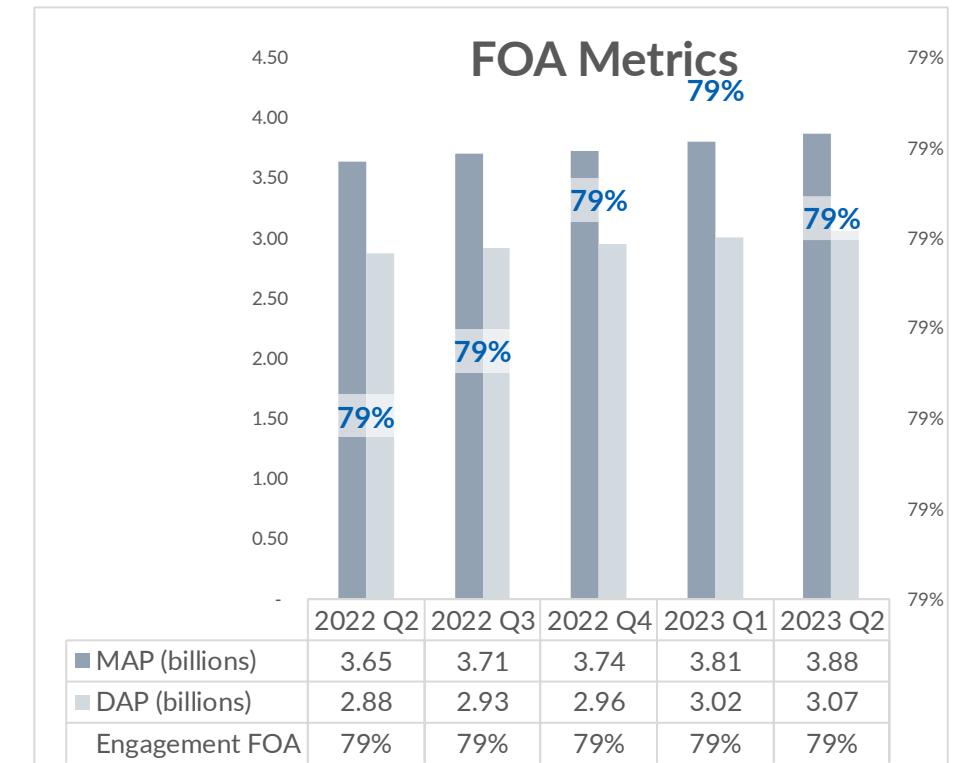


# Narrative | User Data

FY2023 | Q2



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2023 | Q2

## COMPANY OUTLOOK

- Due to a more challenging regulatory environment, there is a significant increase in legal-related accruals which includes estimates fines, settlements or other losses in connection with legal and related matters, as well as other legal fees. This is expected to continue going forward.
- Continue to repurchase shares. As of this quarter, \$40.91B still remain available for these purposes.
- Saw a 14% decrease in headcount due to massive layoffs. Current numbers still include approximately half of the employees impacted by the layoffs.
- ARPP was \$8.32 with an increase of 5% YoY, similar to 2021 values.
- Strong engagement across all apps.
- Launch of Threads – was more successful than expected with high user adoption in the first days. Even with loss in engagement in days after launch is doing better than expected.
- Focus of 2024 is to remain being a lean company even after exiting the hire freeze.
- AI continues to be a revenue driver as 7% of time spent is now from AI recommended content.
  - Reels is a key part of this discovery engine. AI is part of the tools also used by most advertisers (Advantage +).
- Paid messaging has doubled YoY – Announced that WhatsApp Business users will be able to create Click-to-Message ads without needing a Facebook or Instagram account.
- Release of Llama 2 and announced collaboration with Microsoft. Expect to create new products and by seeing benefits in both security and efficiency from the developer community using the open-source model.
  - Do no expect to create a huge enterprise revenue stream from this but will negotiate revenue sharing agreements with providers (i.e., Microsoft).
- Announced Quest 3 – first MR device that will be mainstream.
- Focused on better monetizing Reels and Messaging. Expect to achieve revenue neutrality for Reels by the end of 2023.
- Expect Reality Labs expenses to increase significantly in 2024 as Meta continues to invest in the Metaverse.
- Have a Capex reduction for 2023 due to efficiencies and some delays with data center projects.
- See 3 basic categories of investment related to AI: AI Agents | Gen AI powered features | internal productivity and efficiency.

# Narrative | General Information

FY2023 | Q2

## OTHER RELEVANT INFORMATION

- Shutterstock to buy Giphy from Meta for \$53 million in cash, ending a legal battle; workers allege exploitation and unfair treatment.<sup>[384](#)</sup>
- Content moderators in Kenya, including Musa Abubakar, are part of a lawsuit against Facebook's Meta Platforms and contractor Sama, alleging worker exploitation, unfair termination, and mental health issues arising from reviewing graphic content; these lawsuits may have broader implications for the tech industry's use of outsourced labor.<sup>[385](#)</sup>
- Meta Platforms has asked a federal court to block the Federal Trade Commission's attempt to impose new sanctions on the company for alleged privacy violations, challenging the agency's authority to modify the 2019 settlement and disputing the claims of privacy misrepresentation.<sup>[386](#)</sup>
- Meta Platforms threatens to pull news from its sites in California if the state passes a law requiring payment to publishers, echoing actions taken in Australia and Canada, while facing a federal bill aiming to allow publishers to negotiate for payment without violating antitrust laws.<sup>[387](#)</sup>
- Meta Platforms CEO Mark Zuckerberg unveiled the Meta Quest 3, a thinner and more powerful virtual-reality headset with updated displays and resolution, set to go on sale for \$499 in the fall, as the company faces challenges in the competitive VR market.<sup>[388](#)</sup>
- Meta Platforms is developing a stand-alone app to compete with Twitter on Instagram, aiming to attract public figures and creators, while also focusing on generative AI initiatives for its platforms.<sup>[389](#)</sup>
- Senators urge Meta Platforms to address child safety enforcement shortcomings and algorithmic connections to pedophilic users, raising concerns about initiative and priority, while requesting explanations and details on measures taken to prevent further failures in combating child sexual exploitation.<sup>[390](#)</sup>
- Meta Platforms considers entering Chinese market with its VR headsets through a Tencent partnership, facing challenges including concerns over Zuckerberg's stance, potential content restrictions, and competition from local rivals.<sup>[391](#)</sup>
- The European Union's top court rules that Meta Platforms' Facebook must obtain user consent for personalized ads in specific situations, potentially impacting how social media companies use data for personalized ads within the EU.<sup>[392](#)</sup>
- Meta Platforms' new microblogging app Threads gains over 30 million users within 24 hours of launch, making a strong early impact and potential threat to Twitter, drawing attention from users and advertisers, despite initial feature kinks and uncertainties about sustained user engagement.<sup>[393](#)</sup>
- Elon Musk's controversies on Twitter lead to users seeking refuge on Meta Platforms' Threads, contributing to a successful launch, while Mark Zuckerberg regains a sense of swagger and improved public image, drawing a favorable contrast to Musk's behavior.<sup>[394](#)</sup>
- The US and EU reach a new data sharing agreement, addressing concerns over American intelligence agencies' access to EU resident data, providing clearer policies, and aiming to comply with EU data privacy protections.<sup>[395](#)</sup>
- Meta's app Threads, despite a rapid 100 million signups in 5 days, has experienced drops in daily active users and time spent on the app since launch, posing a challenge to establish its presence in users' social network routine and compete with Twitter's traffic.<sup>[396](#)</sup>
- Norway imposes an immediate ban on "behavioral advertising" on Facebook and Instagram due to user privacy breaches, with potential daily fines of \$100,000 until remedial changes are made, raising regulatory pressures on Meta in Europe.<sup>[397](#)</sup>
- Facebook removed Covid-19 content under pressure from the Biden administration, including claims of the virus being man-made, as revealed by internal communications viewed by The Wall Street Journal, raising concerns about government influence on content moderation.<sup>[398](#)</sup>
- Meta is addressing user retention issues for its Threads app by adding retention features like integration with Instagram, while also progressing in metaverse technology and releasing the AI model Llama 2, which received high demand.<sup>[399](#)</sup>

# Assumptions

FY2023 | Q2

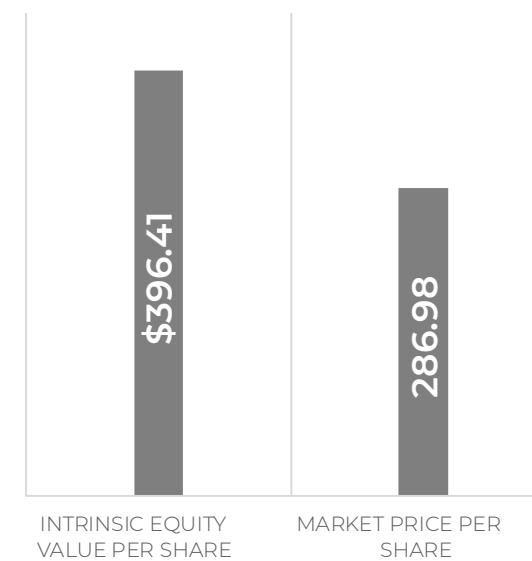
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$120,523	25.00%	3.81%	3.81%	Meta's future revenue growth is fueled by a recovering advertising market and efficient ad delivery. AI advancements play a crucial role, enhancing monetization opportunities, productivity, and quicker product launches. Growing business messaging, powered by AI agents, is poised to contribute to revenue. Recommendations, particularly from AI-driven Reels, are a significant revenue driver, set to strengthen further and achieve neutrality by year-end. Meta's robust long-term strategy involves the Quest 3 launch, a pivotal step toward mainstream adoption of Metaverse technology.
OPERATING MARGIN	34.04%	30.00%	45.00%	45.00%	Meta's operating margin is pressured by regulatory costs, Reels' monetization adjustments, growth in lower-monetizing regions, and significant investments in Reality Labs for metaverse development. In the stable phase as the company stabilizes and productivity and efficiency AI projects are implemented, should return to its past margins of around 45%.
TAX RATE	20.41%	20.41%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.60	RIR =	24.21%	Maintaining current sales to capital for growth phase, increase to 1.5 for stable and terminal phase as Meta becomes more efficient with its investments over time.
RETURN ON CAPITAL	16.37%	Marginal ROIC =	30.32%	15.74%	Expect Meta to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.35%	10.74%	10.74%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Slightly less than in previous periods considering Meta's move towards efficiency and focus on being a more mature company.

# NUMBERS

## FY2023 | Q2

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$150,654	33.24%	\$50,070	\$39,853	\$49,862	-\$10,009
2	\$188,317	32.43%	\$61,064	\$48,604	\$62,327	-\$13,724
3	\$235,396	31.62%	\$74,427	\$59,239	\$77,909	-\$18,670
4	\$294,246	30.81%	\$90,653	\$72,155	\$97,387	-\$25,232
5	\$367,807	30.00%	\$110,342	\$87,826	\$121,733	-\$33,907
6	\$444,171	45.00%	\$199,877	\$156,454	\$50,909	\$105,545
7	\$517,566	45.00%	\$232,905	\$179,235	\$48,930	\$130,305
8	\$581,154	45.00%	\$261,519	\$197,807	\$42,392	\$155,415
9	\$627,925	45.00%	\$282,566	\$210,000	\$31,181	\$178,819
10	\$651,849	45.00%	\$293,332	\$214,133	\$15,949	\$198,183
Terminal year	\$676,685	45.00%	\$304,508	\$222,291	\$53,814	\$168,477

The Value		
Terminal value		2,431,835
PV(Terminal value)		792,562
PV(CF over next 10 years)		234,503
Value of operating assets	\$	1,027,065
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		53,446
Value of firm	\$	1,080,511
- Debt value of lease		(18,050)
- Total Interest Bearing Debt		(36,218)
- Preferred Stock		-
Market Value of Equity	\$	1,020,035
- Options outstanding		-
Value of Equity in Common Stock	\$	1,020,035
Number of shares (primary)		2,573
Intrinsic Equity Value per share	\$	396.41



**72.39%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2023**

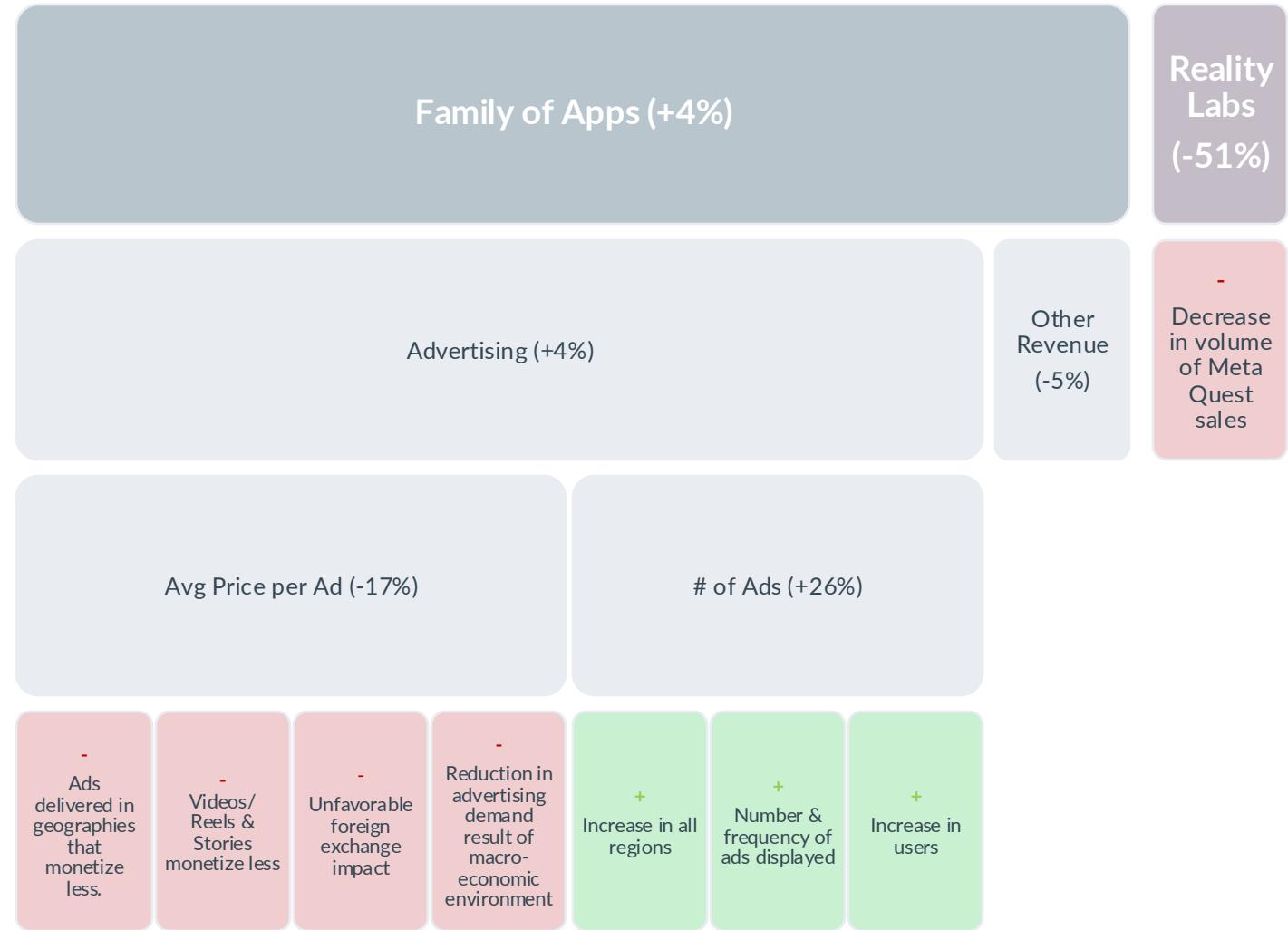
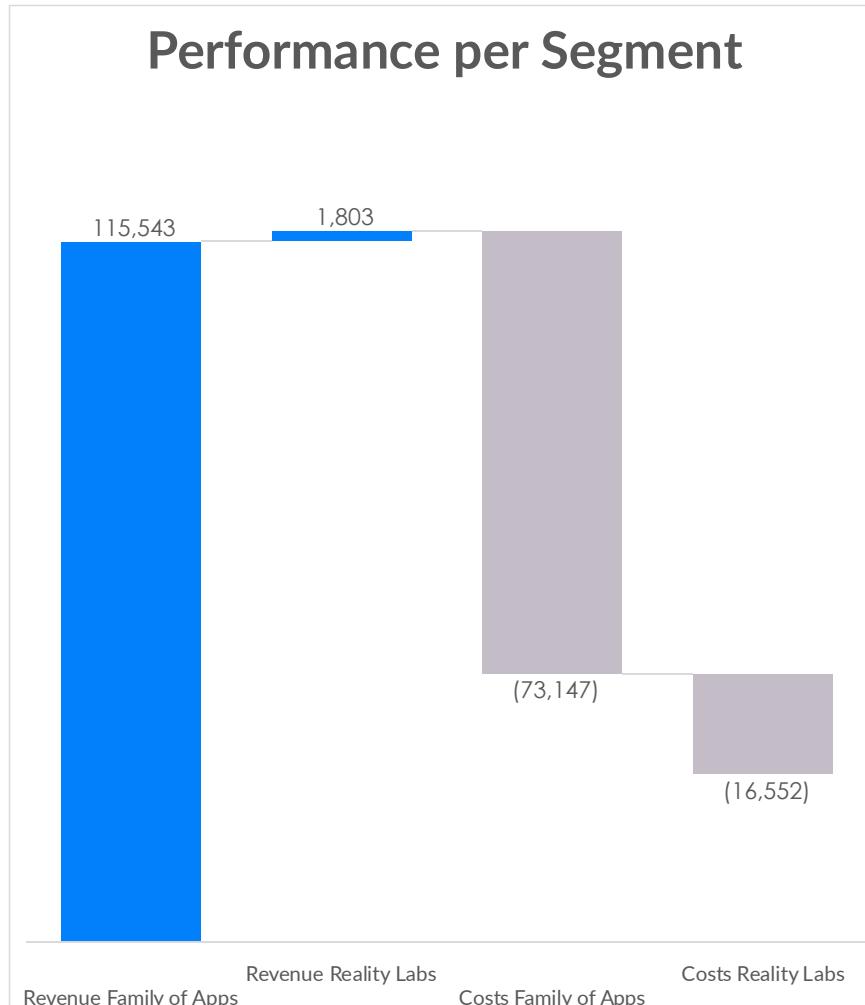
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# Q1 Results

January – March 2023

# Narrative | Segment Drivers

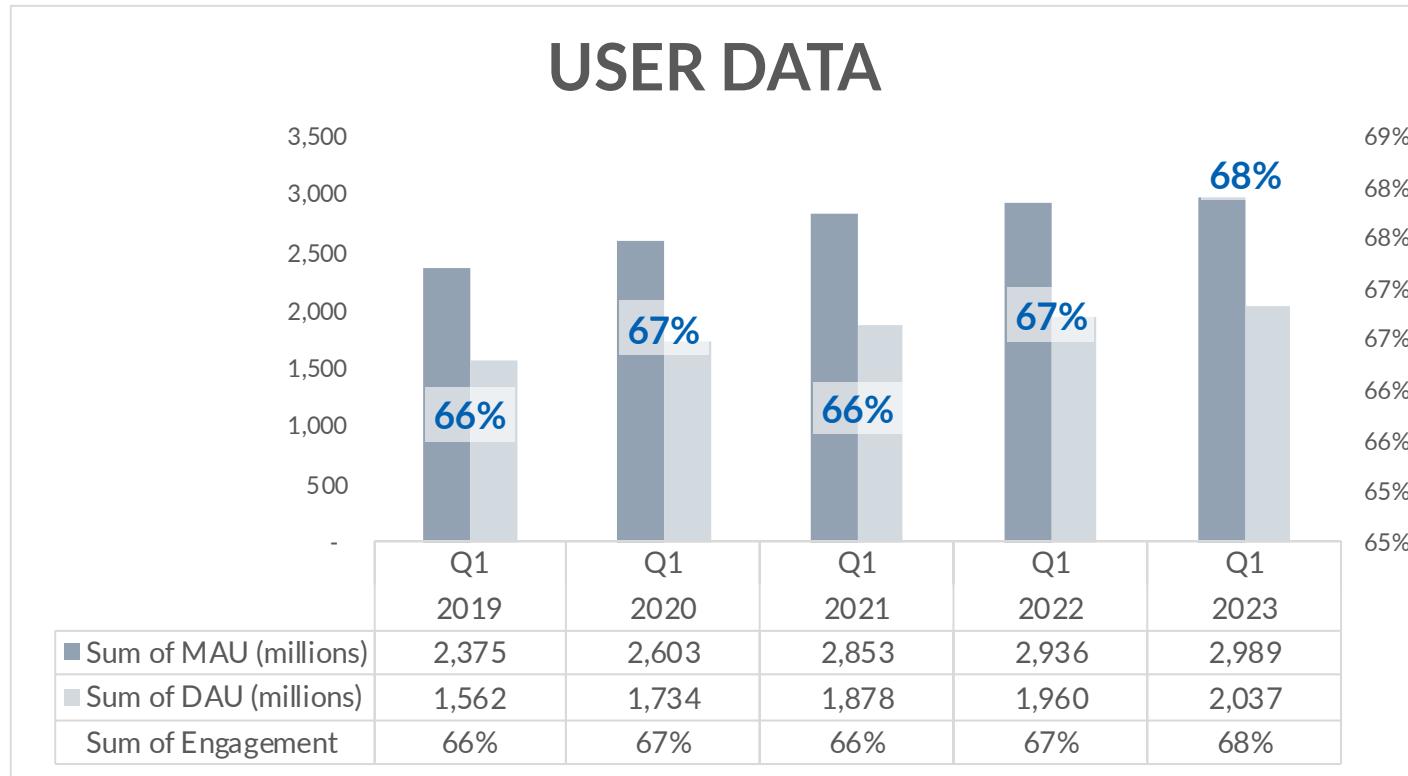
FY2023 | Q1



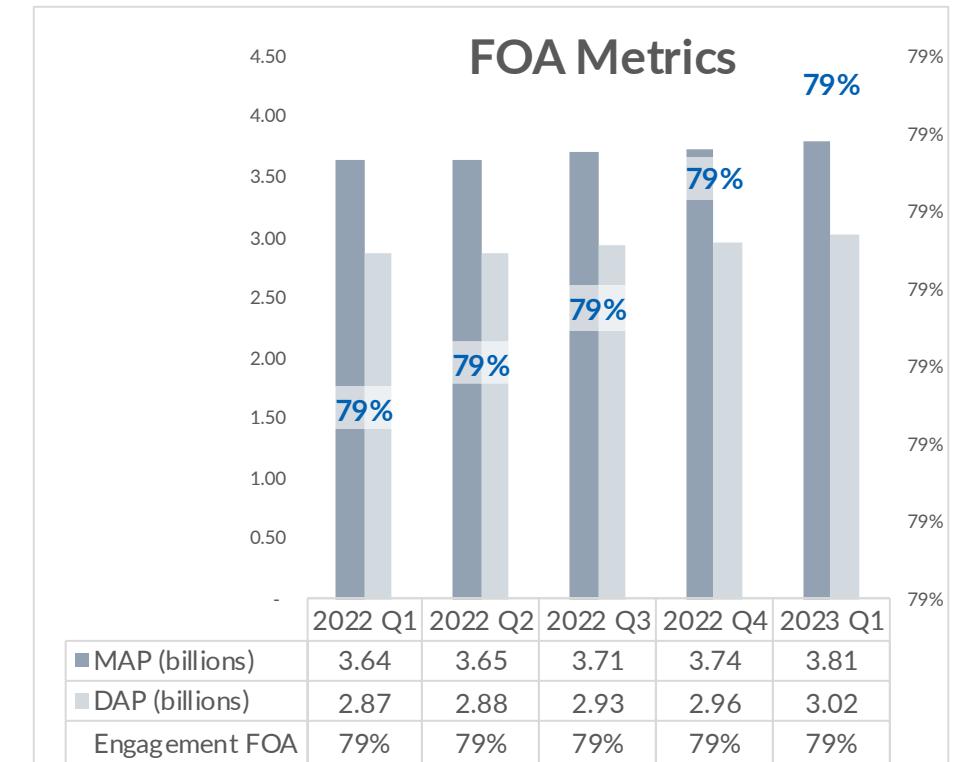
MARGINS	FoA	37.3%
	RL	-635.3%

# Narrative | User Data

FY2023 | Q1



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2023 | Q1

## COMPANY OUTLOOK

- Plans to continue restructuring the company – further layoffs planned for 2023. Substantially all restructuring charges will be recognized by the end of 2023.
  - Costs impacted by these restructuring charges, lowering margins by 4 percentage points during Q1.
- Revenues continue to be impacted by a more challenging macroeconomic environment.
- Due to competitive pressures, are investing in Reels and in AI initiatives across products, including AI-powered discover engine.
  - Reels is growing in usage but still monetizes at a lower rate than feed and stories.
  - Discovery engine goes beyond Reels. AI recommendations are increasing engagement in the blue app with all types of content.
  - Discovery engine increases sharing which creates a flywheel effect for engagement.
- Expect RL operating losses to increase in 2023 and beyond due to the long-term focus of this investment.
- More than 20% of content is recommended by AI from accounts that users don't follow overall. Specifically in Instagram, AI recommended content represents 40%, especially through Reels.
- Business Messaging continues to see growth.
- Working on new products beyond recommendations using AI, including Generative AI products, that are planned to ship in the coming months. Themes to expect are connection and expression.
  - See an opportunity to introduce AI Agents as customer support through messaging.
  - AI work will also extend to the Metaverse.
- Want to create an open ecosystem with AI developments to help developers better integrate with Meta products.
- No longer behind in infrastructure, will need to continue investing but will have a better idea after they launch new products.
- The Metaverse remains an important focus for the company as well as AI. Both areas are related. Are in their way to launch next generation of Quest headset.
- Expect to close monetization gap for Reels by the end of the year/ beginning of 2024 on a per product basis.
- Click-to-Message ads continue to bring incremental demand to the platform.
- AI investment also directed to increase automation for advertiser and create better measurement tools.
- In general, YoY comparisons for this year will be higher due to lapping tough 2022, including impact of War on Ukraine + COVID restrictions in China (saw growth in Asia due to Chinese companies targeting outside of China).
- Tough regulatory environment persists where they will keep monitoring and adjusting to comply with new regulations.
- Messaging is part of the first party data playbook – with regulations and limitations from 3<sup>rd</sup> party operating systems and browsers, company is moving towards focusing more on first party generated data for users.

# Narrative | General Information

FY2023 | Q1

## OTHER RELEVANT INFORMATION

- Meta Platforms Inc. plans to cut 10,000 jobs and cancel projects to increase efficiency amid a difficult economy, with CEO Mark Zuckerberg citing the end of low interest rates, geopolitical tensions, and new regulations as contributing factors. The layoffs will likely impact non-engineering roles and affected U.S. employees will receive 16 weeks of severance pay plus two weeks for every year worked.<sup>[367](#)</sup>
- The tech industry is facing systemic weakness in areas such as retail, advertising, startups, and venture capital, which are spreading outward and causing problems for the wider economy, and its interconnectedness is creating negative feedback mechanisms that can quickly spread and cause catastrophic failure.<sup>[368](#)</sup>
- Disney has eliminated its next-generation storytelling and consumer-experiences unit, which was developing metaverse strategies, as part of a restructuring expected to reduce head count by around 7,000; plans for Disney's metaverse strategy remained sketchy a year after the division was created.<sup>[369](#)</sup>
- Researchers are using AI to decode how neurons communicate in the brain, with the aim of eventually allowing humans to connect with computers by thinking, and AI's ability to process more data is opening possibilities for new insights in various fields, including biology, medicine, and cognitive science. Additionally, Meta's AI lab is using a self-supervised learning model to analyze brain signals gathered by EEGs and MEGs to try and figure out what words people have heard, with the goal of creating a speech decoder that can transform our thoughts into words.<sup>[370](#)</sup>
- Despite some companies scaling back on spending for virtual worlds, many marketers plan to increase their metaverse budgets this year, with 46% saying they will increase their budgets, according to a survey by Forrester, although measuring returns on investments in the metaverse is a challenge.<sup>[371](#)</sup>
- Large companies tend to incentivize caution over boldness and to prioritize promotions over serving customers, resulting in fewer new innovations from inventors who join them, according to a new study. This may be contributing to a decline in business dynamism and economic growth in the US.<sup>[372](#)</sup>
- Families of Sandy Hook victims sought internal company data from Twitter and Facebook to show how Alex Jones's false claims about the killings spread on social media; however, the companies rebuffed the subpoenas, and both companies helped Jones earn large amounts of money before he was banned from their platforms. Additionally, the families are now requesting Congress limit the immunity tech companies have for user content on their platforms.<sup>[373](#)</sup>
- Mothers affected by their children's negative experiences on social media are advocating for legislation to protect minors and are working with lawmakers to fine-tune the Kids Online Safety Act, which would require online services to take reasonable measures to prevent and mitigate harms to minors.<sup>[374](#)</sup>
- Digital ad revenue in the US increased by 10.8% to \$209.7 billion last year, with factors such as the growth of retail media networks and ad-supported streaming video driving growth, while social media ad revenue grew at a slower rate of 3.6% due to privacy regulations affecting the sector.<sup>[375](#)</sup>
- ByteDance is offering incentives of \$15,000 to \$25,000 to VR developers who have made virtual-reality software for Meta Platforms Inc. to bring their apps to its Pico headsets, as the two companies compete in the growing virtual reality market. Meta has faced criticism from some developers who have faced delays in gaining approval for widespread distribution in its Quest Store.<sup>[376](#)</sup>
- Meta Platforms has opened its flagship Horizon Worlds VR app to teenagers in the US and Canada, with age-appropriate default protections to ensure a safe experience, as it seeks to boost engagement on its Quest headsets and grow Horizon's user base. The move follows a struggle with technology and a lack of clarity around the service's strategy last year, with monthly active users at just over 200,000 in February.<sup>[377](#)</sup>
- The Biden administration wants TikTok's owner, ByteDance, to sell the app to a buyer that the government can trust or face a ban in the U.S. and is urging Congress to pass legislation to restrict TikTok's use, although there are concerns over the potential for abuse of power and the efficacy of such measures in terms of data privacy.<sup>[378](#)</sup>
- Meta CEO Mark Zuckerberg tells employees layoffs may continue, with the company not expected to hire as quickly as it did before cutting almost a quarter of its workforce last year, while some employees question bonuses handed out to executives and the extent of layoffs in certain divisions.<sup>[379](#)</sup>
- The EU's new Digital Services Act requires 19 major online platforms and search engines, including Apple, Amazon, Meta, and Google, to comply with strict rules by late August, with violators facing fines of up to 6% of their global annual revenue; the law requires companies to conduct regular assessments of the risks their systems pose to individuals and civic life and show regulators they are addressing them with robust systems, as well as providing tools for users to appeal if their content is removed or demoted unfairly, and regular outside audits.<sup>[380](#)</sup>

# Assumptions

FY2023 | Q1

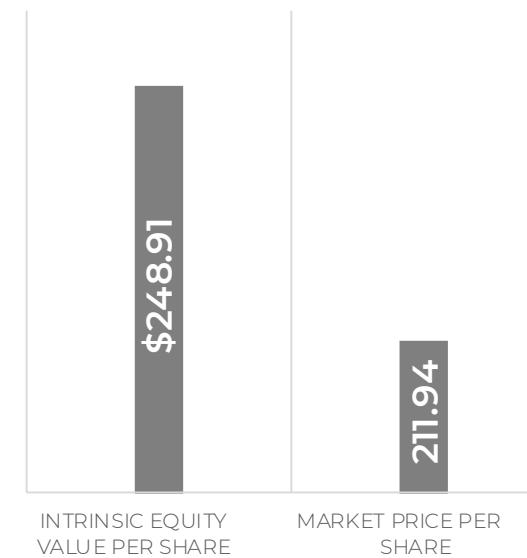
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$117,346	20.00%	3.48%	3.48%	Meta Platforms' revenue growth is expected to be driven by factors such as advertising, Reels, AI recommendations, messaging, and generative AI. However, there are potential offsetting factors, including strong competition, a rocky macroeconomic environment, a difficult regulatory environment, data transfer issues, and potential reputational damage.
OPERATING MARGIN	35.34%	35.00%	45.00%	45.00%	Meta Platforms' operating margin is influenced by various factors. While the company's efficiency policy, including massive layoffs and restructuring, has benefited margins, this year's margin was impacted by restructuring charges that are one-time expenses. Reels' lower monetization rate reduces the average price per ad. Moreover, the growth in geographies where Meta monetizes less per user affects overall margins. Reality Labs, Meta's long-term metaverse play, is expected to generate operating losses, which will negatively impact margins.
TAX RATE	21.21%	21.21%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.61	RIR =	21.38%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	16.96%	Marginal ROIC =	21.02%	16.28%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.97%	11.28%	11.28%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues. Slightly less than in previous periods considering Meta's move towards efficiency and focus on being a more mature company.

# NUMBERS

## FY2023 | Q1

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$140,815	35.27%	\$49,663	\$39,127	\$38,533	\$594
2	\$168,978	35.20%	\$59,482	\$46,864	\$46,240	\$624
3	\$202,774	35.13%	\$71,243	\$56,129	\$55,488	\$642
4	\$243,329	35.07%	\$85,328	\$67,227	\$66,585	\$641
5	\$291,994	35.00%	\$102,198	\$80,518	\$79,902	\$616
6	\$340,746	45.00%	\$153,336	\$119,033	\$80,043	\$38,990
7	\$386,378	45.00%	\$173,870	\$132,962	\$74,922	\$58,039
8	\$425,356	45.00%	\$191,410	\$144,160	\$63,996	\$80,163
9	\$454,212	45.00%	\$204,396	\$151,574	\$47,378	\$104,196
10	\$470,019	45.00%	\$211,509	\$154,401	\$25,952	\$128,449
Terminal year	\$486,376	45.00%	\$218,869	\$159,774	\$34,161	\$125,613

The Value		
Terminal value		1,611,215
PV(Terminal value)		498,001
PV(CF over next 10 years)		152,260
Value of operating assets	\$	650,261
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		37,439
Value of firm	\$	687,700
- Debt value of lease		(16,070)
- Total Interest Bearing Debt		(27,575)
- Preferred Stock		-
Market Value of Equity	\$	637,888
- Options outstanding		-
Value of Equity in Common Stock	\$	637,888
Number of shares (primary)		2,563
Intrinsic Equity Value per share	\$	248.91



**85.15%**  
PRICE AS % OF VALUE

VALUATION YEAR

# FY2022

January – December 2022



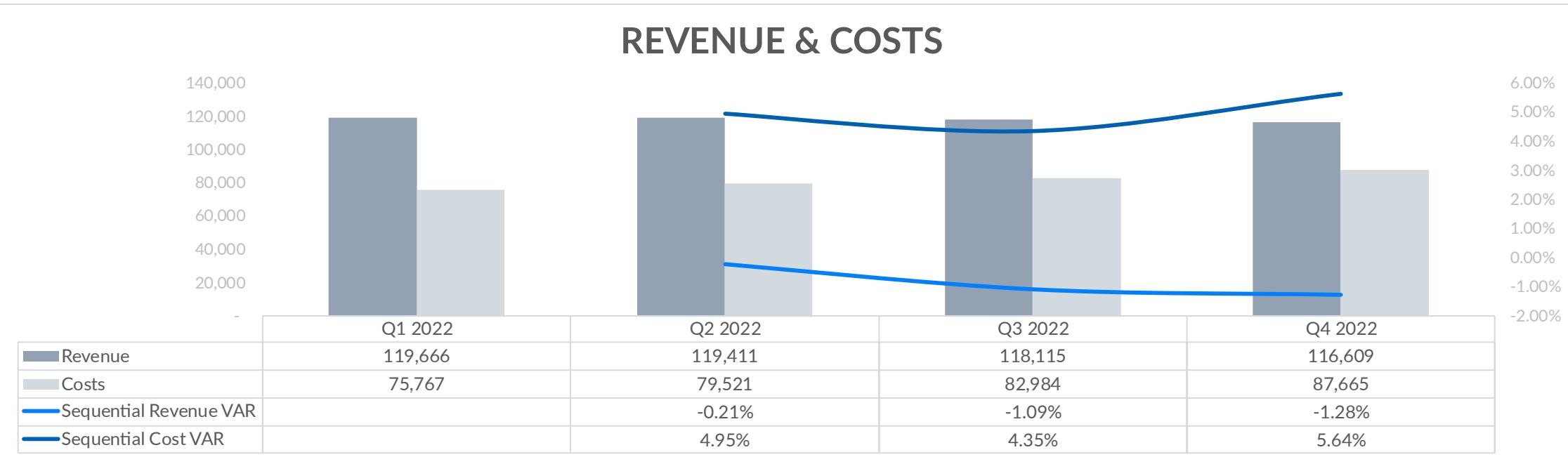


# General Narrative

- ∞ Meta continues to face a challenging year as many factors are affecting its results including macroeconomic environment limiting advertiser budgets, strong competition from TikTok and new players in the ad market, further regulation and 3<sup>rd</sup> party changes which limits use of personal data to target and measure results. This combined with high investments in Reality Labs has led to Meta's worst year since IPO which in turn led to Meta proclaiming 2023 as the year of efficiency and pairing down costs including laying off its employees.
- ∞ Reels and video continue to be a strong source of potential revenue stream as more people both share and see more of this type of content. It has helped Meta to see incremental time-spent on its platform which it was previously losing to competitor TikTok showing a better outlook for the company. The AI and Generative AI wave also pushes Meta's results as it will make recommendation and discovery systems more efficient and accurate.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5-year CAGR was 20.21% as Meta has grown into the social media behemoth it is today. As the years have progressed and it has reached saturation in mature markets, sequential growth has decreased YoY and is expected to continue to do so in the future. Meta is still expected to have double digit growth as it remains a big player in advertising and develops new products to increase ad inventory as well as alternative revenue streams. With all the issues it is currently facing from public scrutiny, reputational damage and more rigorous regulation as well as restrictions from 3<sup>rd</sup> party operating systems, its revenues will be negatively impacted.

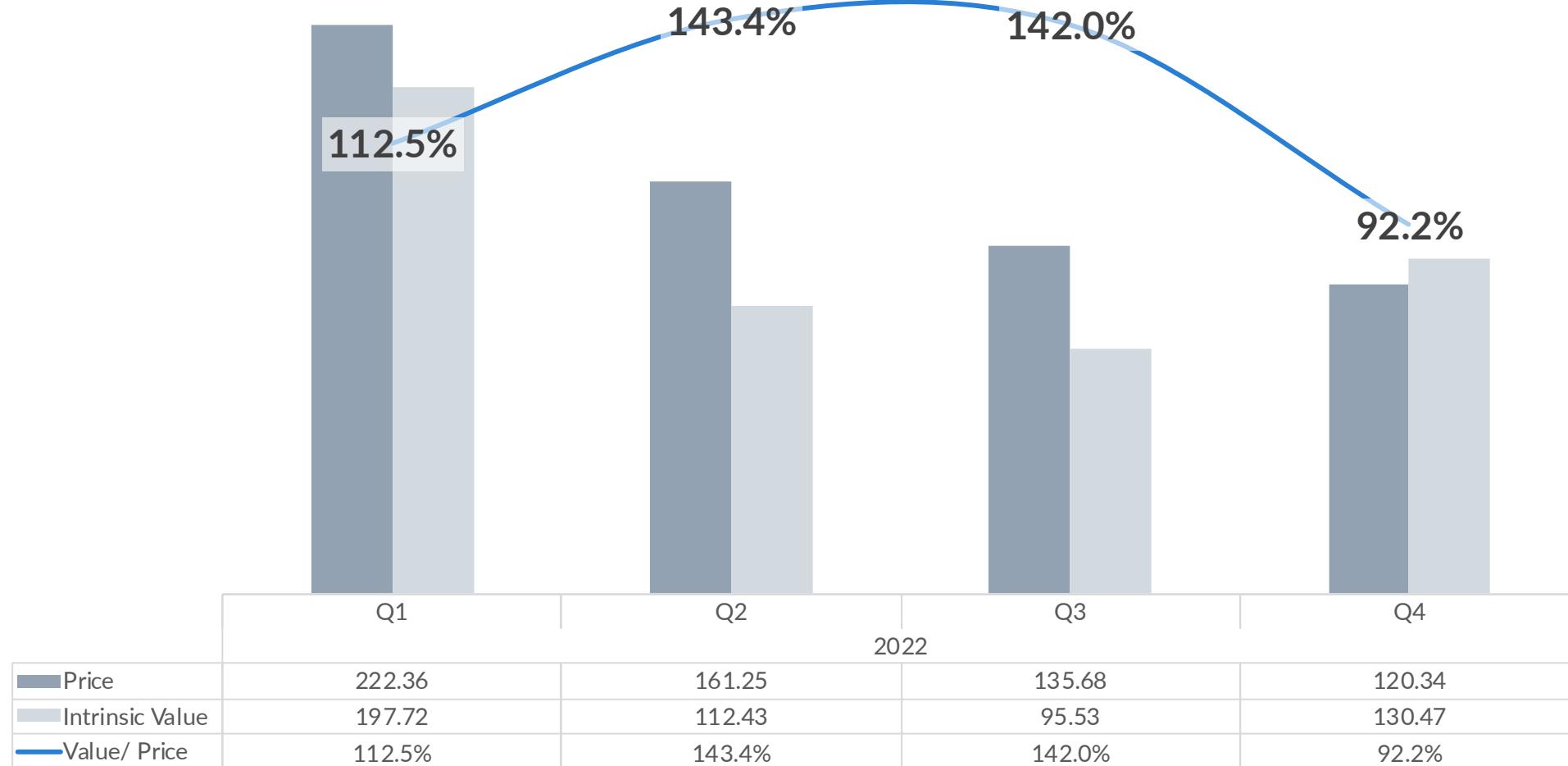
Costs 5-year CAGR was 29.76% as Meta has needed to heavily invest in order to continue growing as well as additional investments in safety, security and privacy that increased significantly their YoY cost growth. Even though Meta has plans to continue investing, by this year's end they shifted their focus on making the company more efficient stating that the high growth they had before deterred from efficiency over keeping up with the market but now they will focus investments while also growing its overall income.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ War on Ukraine negatively impacting results as Meta restricts access in Russia and stopped accepting ads from Russian advertisers.
- ∞ Macroeconomic situation including inflation and interest rate increase are affecting global economy, limiting advertiser budget.
- ∞ Appreciation of US dollar has a negative impact on overall results throughout the entire year.
- ∞ Video continues to grow as a way of expressing yourself as well as in shared content. Shows a trends of discovery and suggested content gaining traction.
- ∞ Focus on AI which will drive discovery engine. Are updating datacenter architecture to be more flexible for both AI and non-AI workloads.
- ∞ Even though Reels has seen strong growth, it still lags behind TikTok. Streaming services also start to ad a tear which includes ads, providing advertisers with more options and divides their available budget.
- ∞ The Metaverse continues to be a focus for the company.
- ∞ Company shifts focus from growing rapidly without restricting in investments to “Year of Efficiency” where they moderate costs more in order to invest while still generating positive income results.

# Intrinsic Value vs Price





FISCAL YEAR  
**2022**

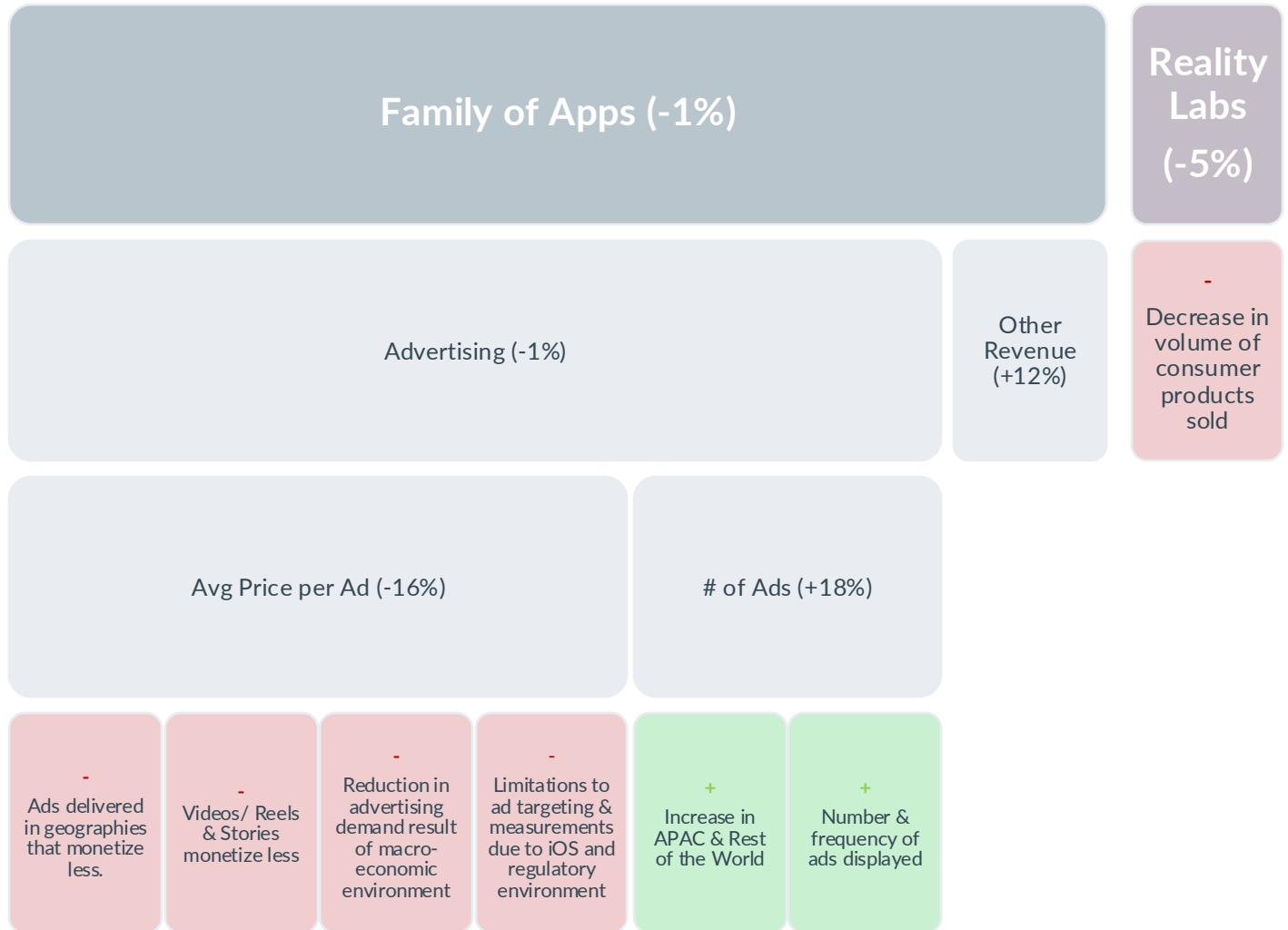
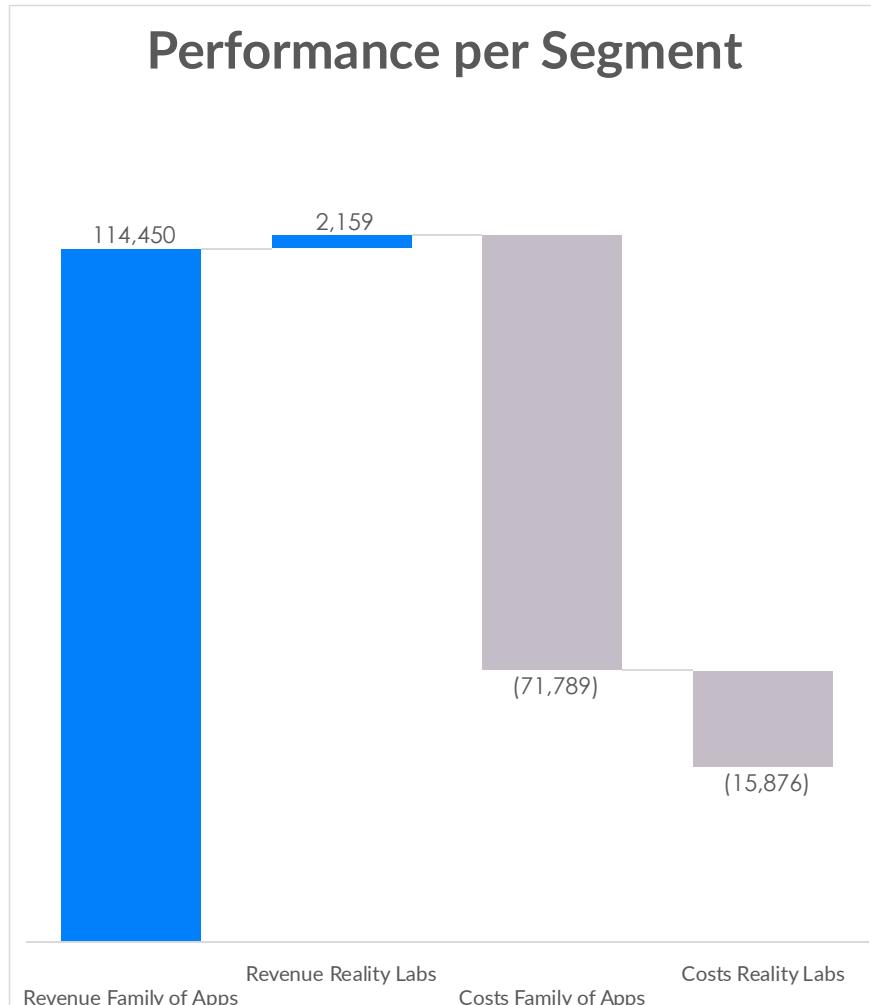
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# **Q4 Results**

October – December 2022

# Narrative | Segment Drivers

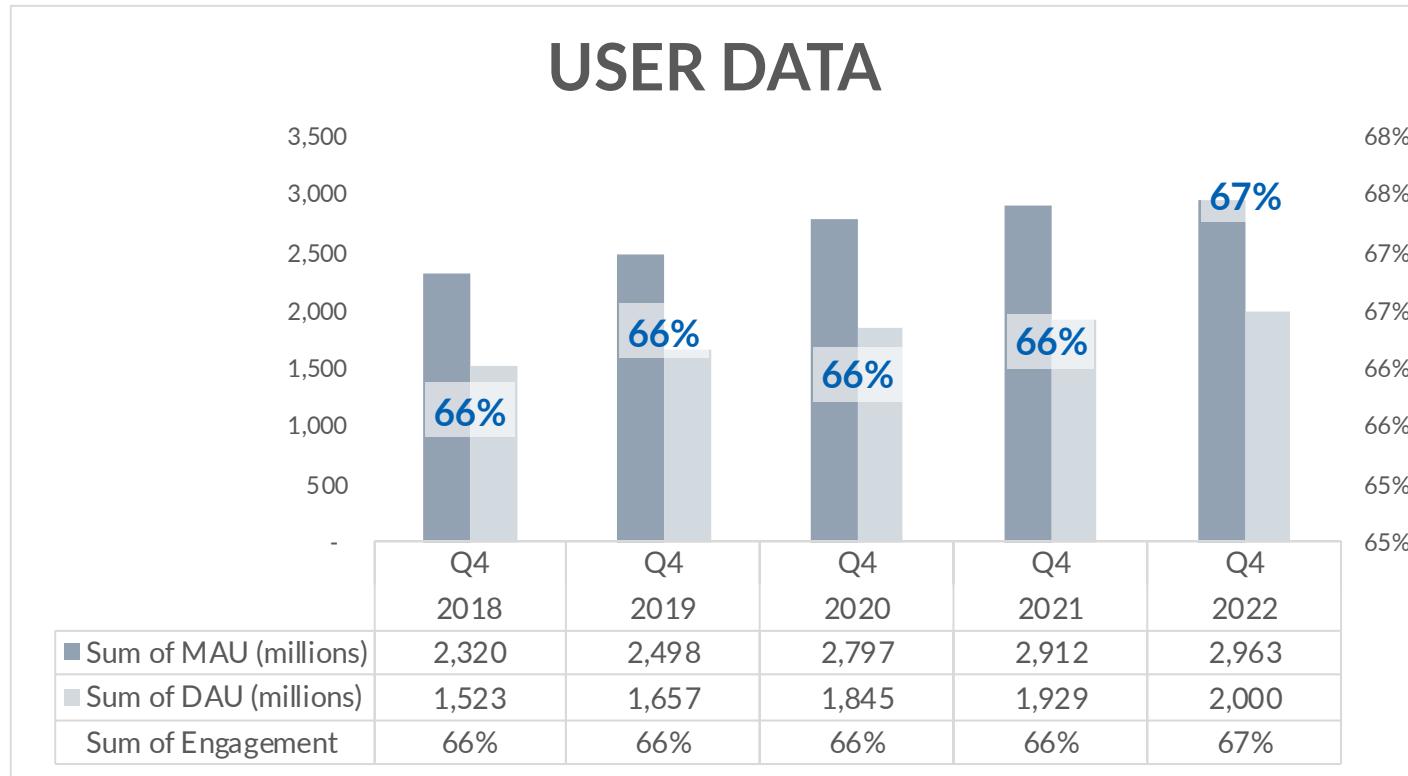
FY2022 | Q4



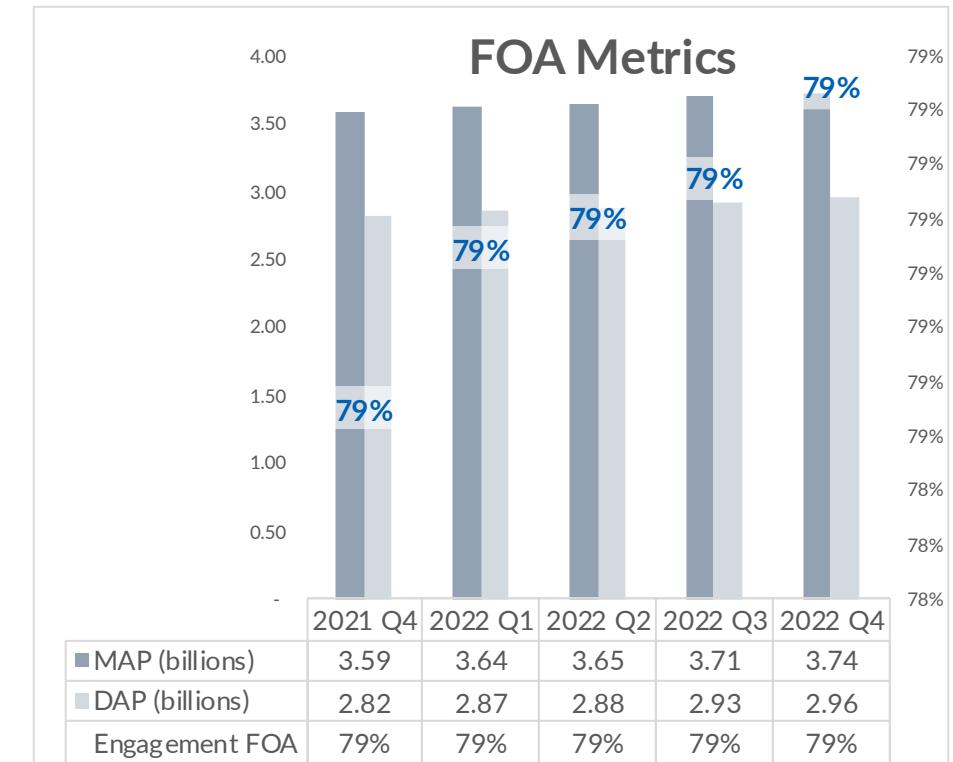
MARGINS	FoA	37.3%
	RL	-635.3%

# Narrative | User Data

FY2022 | Q4



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2022 | Q4

## COMPANY OUTLOOK

- Steps to become more efficient: Layoff of ~11,000 employees.
- Will Scale back budgets, reduce company perks, shrink our real estate footprint, and restructure teams to increase efficiency.
- Also cancelled multiple data center projects.
- All these changes resulted in a one-time USD \$4.6B charge which lowered operating margin by 4 percentage points.
- Declared as the “year of efficiency” and expect 2023 to have better results than 2022.
- Priorities haven’t changed – continue to be AI and the Metaverse.
  - FB & IG focused on shifting to AI suggestion especially through short-form video format Reels.
  - Discovery engine will increase engagement which leads to more ad inventory – see trend of recommended content continuing to grow.
- Working on Reels monetization – News Feed continues to have higher rate and time-spent in Reels makes them loose money, even if long-term is best option.
  - 34% of advertisers are using Reels.
- Excited with business messaging both with Click-to-Messages ads and paid messages.
- Want to become a leader in Generative AI.
- Expect expenses to include further restructuring charges but will lower CAPEX by shifting to more cost-effective architecture.
  - New Data center architecture will be able to be used for both AI and non-AI workloads. It’s also more flexible in order to grow when needed.
  - Will be measuring ROI and demand in order to determine future necessary CAPEX.
- Efficiency changes will be touching all areas of the company, not focused on cutting costs in just one area. Will be flattening the organization overall, which should also make decision making more efficient.
- Expect losses will increase for Reality Labs.

# Narrative | General Information

FY2022 | Q4

## OTHER RELEVANT INFORMATION

- Facebook's rebranding to Meta has resulted in a decline of \$800 billion in market capitalization, with Meta experiencing losses due to a change in strategy towards the metaverse, causing the company to pursue stretch goals and face significant operating losses.<sup>[351](#)</sup>
- Several major tech companies, including Facebook's Meta Platforms, Salesforce, Twitter, Lyft, Stripe, and Opendoor Technologies, have announced significant workforce reductions, despite a strong US labor market, as they face pressure to reduce costs and bring in revenue, with investors likely to seek out new, fast-growing tech companies in the future.<sup>[352](#)</sup>
- Meta Platforms is beginning layoffs of many thousands of employees, the largest of the year in the tech sector, due to overstaffing caused by CEO Mark Zuckerberg's over-optimism about growth, and the company's stock has fallen over 70% this year, while Twitter, Snap, and Salesforce have also announced layoffs.<sup>[353](#)</sup>
- Meta Platforms has fired or disciplined more than two dozen employees and contractors over the last year for improperly taking over user accounts, some of whom were security guards stationed at Meta facilities who allegedly accepted bribes from outside hackers to access user accounts.<sup>[354](#)</sup>
- Meta Platforms Inc. has been fined 265 million euros by Ireland's Data Protection Commission for not safeguarding users' phone numbers and other information from data scrapers, bringing the total amount of financial penalties to more than \$900 million over the past 15 months.<sup>[355](#)</sup>
- Mark Zuckerberg criticized Apple's influence over the mobile-app ecosystem, while expressing optimism about Meta's metaverse ambitions, which account for less than 20% of the company's costs, and are a long-term initiative, and Elon Musk accused Apple of stifling free speech and threatening to remove Twitter from the iPhone.<sup>[356](#)</sup>
- Meta Platforms Inc.'s oversight board found that the company has given preferential treatment to VIP users under a program called "cross check" and misled the public about the program's details.<sup>[357](#)</sup>
- New Zealand plans to introduce legislation that would require online platforms like Google and Facebook to pay news publishers for content, based on similar laws in Australia and Canada.<sup>[358](#)</sup>
- EU privacy regulators have ruled that Meta Platforms Inc. cannot require users to agree to personalized ads based on their online activity, potentially limiting the data Meta can access for such ads.<sup>[359](#)</sup>
- Meta's push for Reels on Instagram, and lack of investment in truly unique content, may be a sign of the company's reluctance to reignite ad growth, as it shifts focus and funds towards metaverse ambitions, while its Q4 revenue is forecasted to fall by 6.5%.<sup>[360](#)</sup>
- The EU charged Meta Platforms with antitrust violations for allegedly benefiting its Marketplace service by using advertising data from third parties, while Meta disputes the charges.<sup>[361](#)</sup>
- The Justice Department and FTC have adopted a high-risk legal strategy in recent years, with upcoming trials challenging Google's monopoly on internet search and Microsoft's acquisition of Activision, while the FTC also faces a decision on its lawsuit against Meta Platforms accusing it of trying to buy its way to the top of the virtual-reality market.<sup>[362](#)</sup>
- Google and Facebook's combined share of US digital-ad spending dropped below 50% in 2022 for the first time since 2014, with Meta's share expected to fall further in 2023, while TikTok's share doubled thanks to its popularity with younger audiences; meanwhile, the rise of ad-supported streaming services such as Netflix and Disney+ is expected to further shift the digital-advertising market.<sup>[363](#)</sup>
- Republicans in the House plan to investigate communications between the Biden administration and big tech and social media companies to determine whether they censored legitimate viewpoints on Covid-19 that ran counter to White House policy, with evidence suggesting that over 80 federal officials were seeking to influence social media companies to take down posts and remove accounts that conflicted with the government's preferred point of view, according to a lawsuit by state attorneys general.<sup>[364](#)</sup>
- Meta is paying BuzzFeed millions to generate creator content and train creators to grow their presence on its platforms as part of a deal valued at close to \$10 million.<sup>[365](#)</sup>
- Despite facing challenges such as Apple's privacy changes and the cultural shift away from its platforms, Meta Platforms Inc. is seeing a path to recovery with the success of its short-form video product, Reels, and heavy investment in artificial intelligence tools for ad-targeting systems.<sup>[366](#)</sup>

# Assumptions

FY2022 | Q4

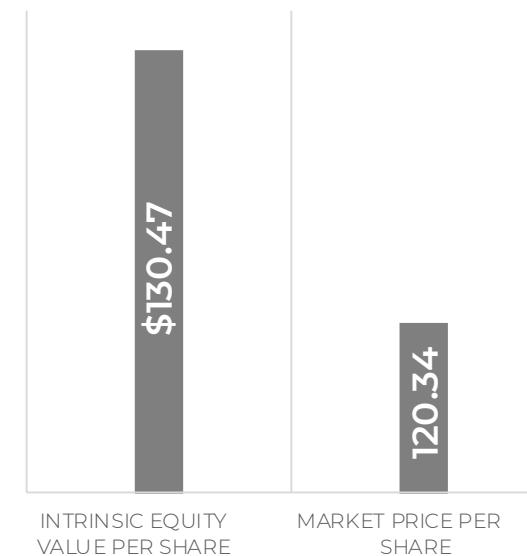
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$116,609	15.00%	3.88%	3.88%	Meta's future revenue growth rate will be driven by various factors, including ads, Reels, AI, Generative AI, messaging, and the Metaverse. However, several factors offset this growth, including the macroeconomic situation, limited advertiser budgets, the shift to Reels generating less revenue, new regulations and changes to third-party operating systems, and strong competition from TikTok and streaming services that integrate an ad segment, making it even more challenging for Meta to grow their revenue.
OPERATING MARGIN	36.30%	20.00%	35.00%	35.00%	Meta is taking action to prioritize efficiency, a detour from its strong investment approach without scaling down, due to the macroeconomic environment. However, the company is still negatively impacted by macroeconomics, competition, shift to Reels, and expected future losses for Reality Labs increasing. Despite this, Meta is being more conservative with the growth of costs internally, which could positively impact the company's future operating margin.
TAX RATE	19.50%	19.50%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.62	RIR =	23.41%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	18.15%	Marginal ROIC =	14.72%	16.58%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		13.89%	11.58%	11.58%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2022 | Q4

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$134,100	33.04%	\$44,311	\$35,672	\$28,166	\$7,506
2	\$154,215	29.78%	\$45,929	\$36,974	\$32,391	\$4,584
3	\$177,348	26.52%	\$47,036	\$37,865	\$37,249	\$616
4	\$203,950	23.26%	\$47,441	\$38,191	\$42,837	-\$4,646
5	\$234,542	20.00%	\$46,908	\$37,762	\$49,262	-\$11,500
6	\$264,507	35.00%	\$92,578	\$73,138	\$48,252	\$24,886
7	\$292,418	35.00%	\$102,346	\$79,320	\$44,944	\$34,376
8	\$316,771	35.00%	\$110,870	\$84,262	\$39,214	\$45,048
9	\$336,107	35.00%	\$117,637	\$87,640	\$31,136	\$56,505
10	\$349,148	35.00%	\$122,202	\$89,207	\$20,999	\$68,208
Terminal year	\$362,694	35.00%	\$126,943	\$92,668	\$21,691	\$70,978

The Value		
Terminal value		922,225
PV(Terminal value)		267,057
PV(CF over next 10 years)		81,543
Value of operating assets	\$	348,600
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		40,738
Value of firm	\$	389,338
- Debt value of lease		(18,283)
- Total Interest Bearing Debt		(26,591)
- Preferred Stock		-
Market Value of Equity	\$	338,264
- Options outstanding		-
Value of Equity in Common Stock	\$	338,264
Number of shares (primary)		2,593
Intrinsic Equity Value per share	\$	130.47



**92.24%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2022**

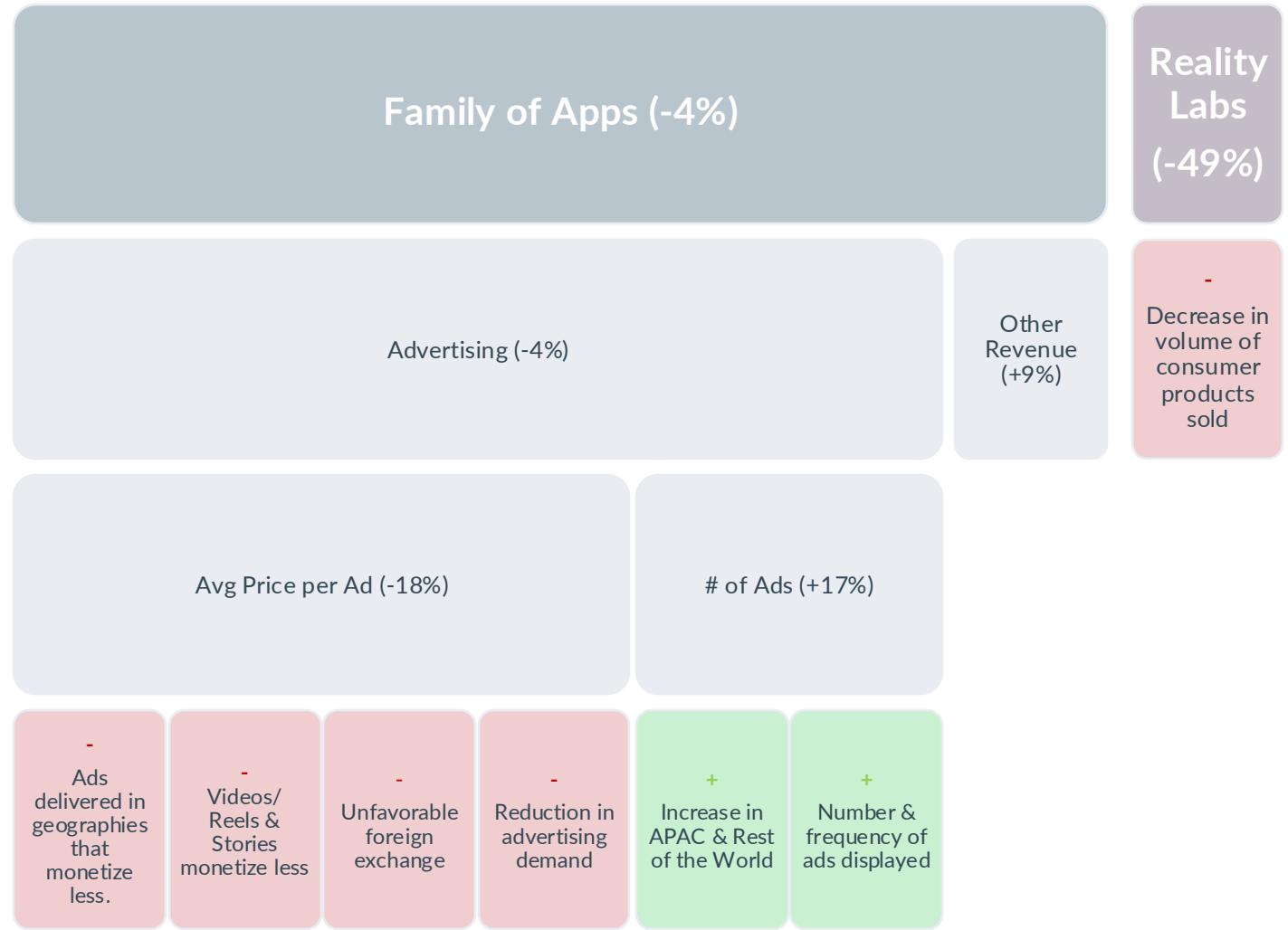
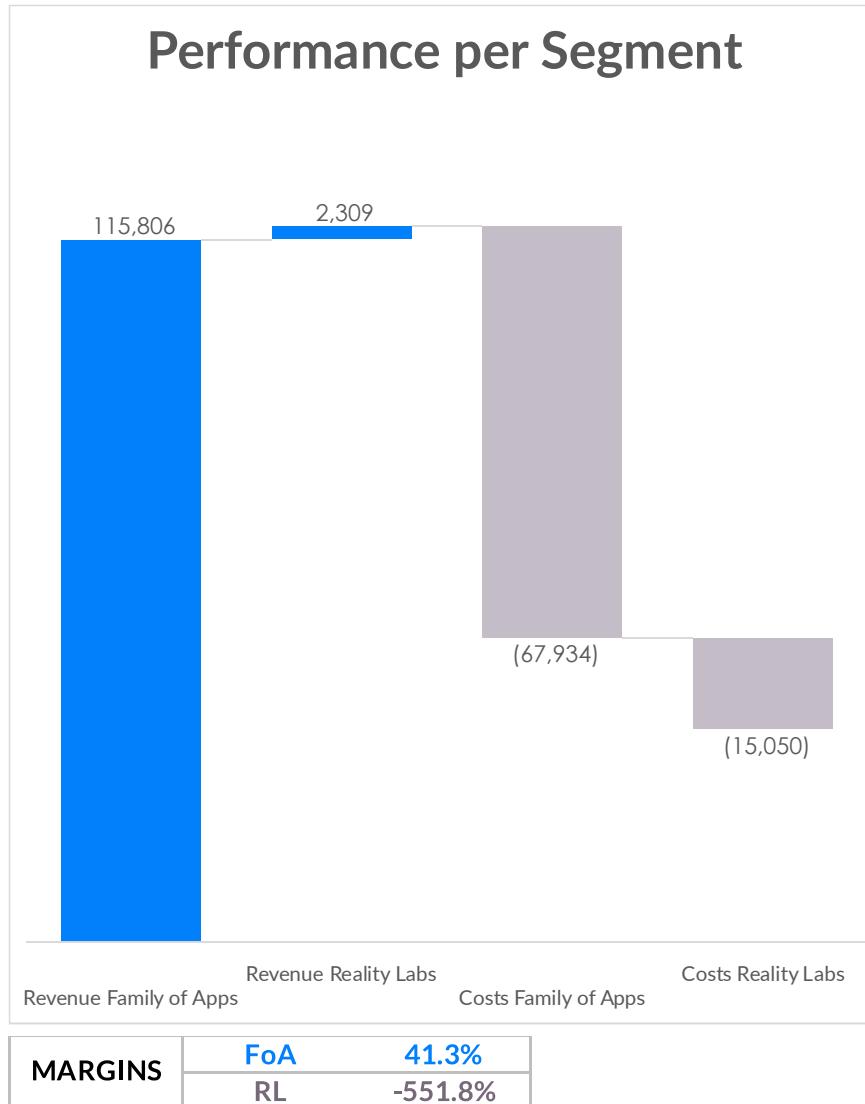
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# **Q3 Results**

July – September 2022

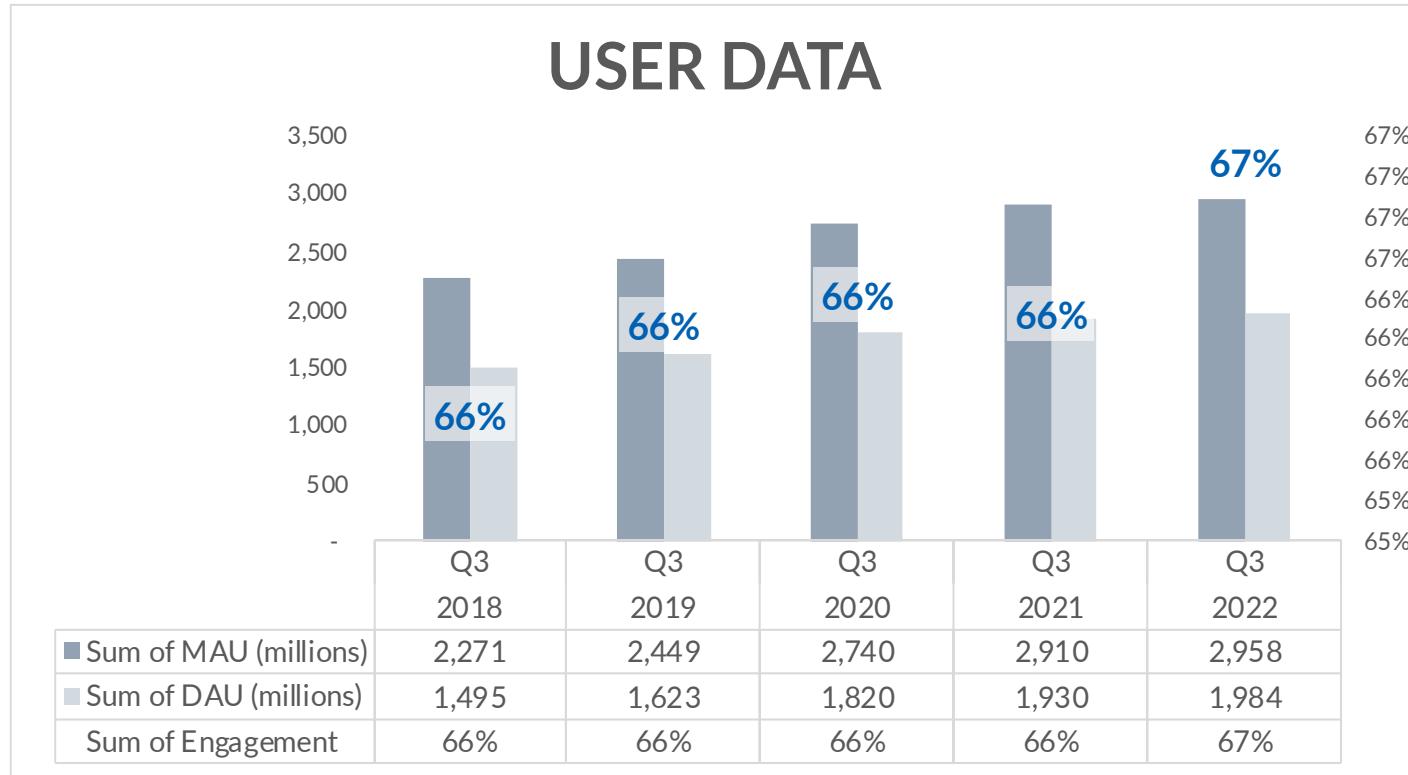
# Narrative | Segment Drivers

FY2022 | Q3

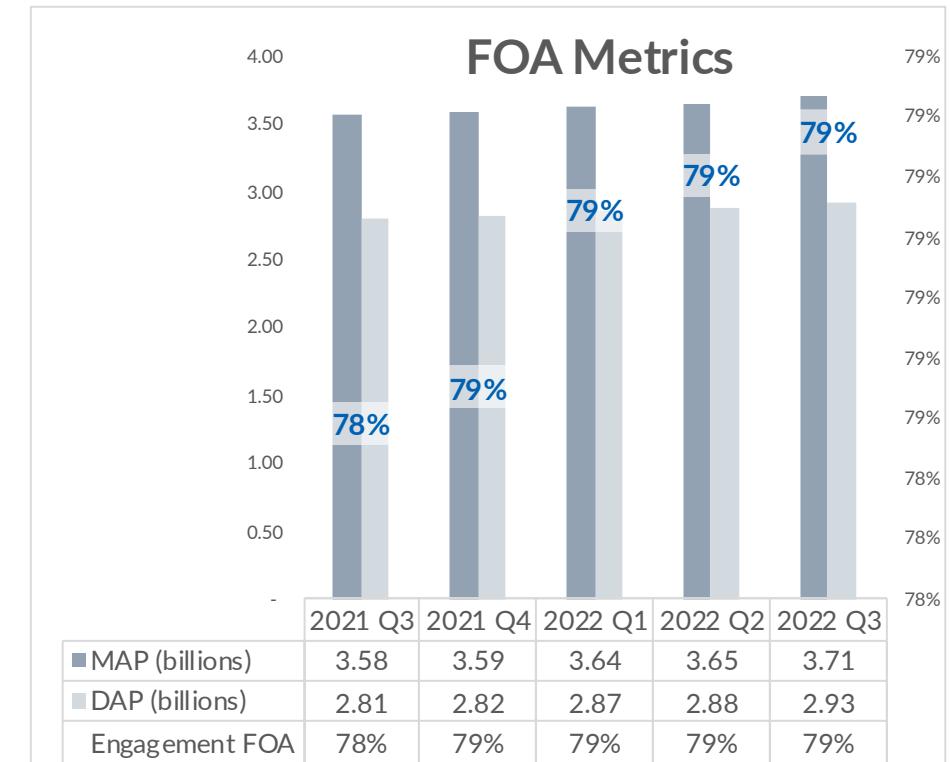


# Narrative | User Data

FY2022 | Q3



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2022 | Q3

## COMPANY OUTLOOK

- Plan to divest Giphy due to regulatory decision announced by the UK Competition and Markets Authority.
- Advertising revenue has been and is expected to continue to be affected by reduced marketer spending as a result of limitations to ad targeting and measurement tools arising from changes to regulatory environment and 3<sup>rd</sup> party mobile operating systems and browsers.
  - To mitigate these developments, are working to evolve advertising systems to improve performance of ad products by developing privacy enhancing technologies to deliver relevant ads and measurement capabilities while reducing the amount of personal information they process, including relying on more anonymized or aggregated 3<sup>rd</sup> party data.
- Advertising budgets are being pressured by factors such as inflation, rising interest rates, and related market uncertainty.
- Competitive products and services have reduced some users' engagement. In response, Meta has introduced new features such as Reels, which is growing in usage but it currently not monetizing at the same rate as feed or stories products.
- Community continues to grow – trends look better than what some commentary suggests. Overall, all apps continue to grow from a large base.
- Company grew on a constant currency basis – not clear when global economy will stabilize. Expect this to continue.
- Focus for 2023:
  - Most teams will stay flat or shrink – overall company will remain the same size of slightly smaller.
  - AI as a discovery engine to continue to power Reels and other recommendations | Ads and Business messaging platforms | Future vision for the Metaverse.
- Current surge in CAPEX due to building new AI infrastructure – will go down in the long-term.
- Reality Labs investment expected to increase meaningfully in 2023. Losses will increase significantly.
  - Launched Quest headset + increased headcount in 2022 (headcount costs full-year effect will be seen in 2023).
  - Expect to pace further expenses for RL to achieve goal of growing Operating Income.
- Reels is incremental time spent on the platforms. Believe they are gaining time spent share on competitors like TikTok.
- What sets Meta products apart is: Discovery engine recommends all types of content | Mix content alongside posts from family and friends | More social interactions are moving to messaging.
- See Messaging as a major monetization opportunity: Click-to-messages ads continue to be a fast-growing ad product + paid messaging continues to grow quickly but from a smaller base.
  - Key partnership with Salesforce – lets business use WhatsApp as main messaging service to answer customer questions, updates and sell directly in chat.
  - Launched JioMart in WhatsApp in India – first end-to-end shopping experience (show potential for chat-based commerce through messaging)
- Metaverse: announced Quest Pro (started shipping) – new high-end VR headset which blends virtual objects into physical environment around you.
  - Enable more people to get work done in virtual mixed reality even better than they could on a PC. Partnerships with Microsoft, adobe, Autodesk, Zoom and Accenture.
- Have a \$413M impairment of certain operating leases – align office facilities footprint to operating needs.
- Pace of hiring slowed in Q3. Expect to slow dramatically going forward.

# Narrative | General Information

FY2022 | Q3

## OTHER RELEVANT INFORMATION

- DoorDash drivers are delivering items purchased on Facebook Marketplace in a partnership with Meta-owned Facebook, aimed at increasing the platform's usage, allowing users to purchase and receive items without leaving their homes, and potentially providing more-detailed data for advertising.<sup>[339](#)</sup>
- Meta Platforms has agreed to settle a lawsuit alleging that Facebook allowed third parties to access private user data, including Cambridge Analytica, with the two sides requesting a 60-day stay in the case, which followed revelations that the now-defunct consulting firm improperly obtained and exploited Facebook user data, resulting in fines and privacy practice changes for Facebook.<sup>[340](#)</sup>
- The FTC's lawsuit to block Meta's acquisition of virtual-reality app developer Within Unlimited aims to constrain Meta's VR ambitions and set a regulatory precedent that discourages acquisitions, although the lawsuit faces the challenge of proving antitrust violations in a highly concentrated VR fitness market, and some critics argue that the FTC's aim is to break up Meta.<sup>[341](#)</sup>
- Meta Platforms has acquired Berlin startup Lofelt, whose touch replication technology for virtual reality comes as Meta is facing an FTC legal challenge, and Meta also announced a partnership with Qualcomm to create custom chipsets for future VR headsets and devices.<sup>[342](#)</sup>
- Instagram's owner, Meta Platforms Inc., has been fined €405 million by Ireland's Data Protection Commission for allegedly mishandling data about children on the platform, making it the second-largest privacy fine in the European Union's history, and Meta may have to suspend some of its services in Europe if an ongoing case orders Facebook to stop sending data about its users to servers in the U.S.<sup>[343](#)</sup>
- Meta Platforms Inc. disbanded its Responsible Innovation team, which focused on addressing concerns about the potential negative impact of its products, but a spokesperson said the company remains committed to the team's goals and its former members will continue similar work elsewhere at Meta.<sup>[344](#)</sup>
- Meta CEO Mark Zuckerberg is betting on Instagram Reels as the company's answer to TikTok, but internal research shows that Reels engagement has been falling and most users have no engagement; Meta has also faced headwinds from privacy-related changes by Apple and negative user perceptions, while TikTok's popularity and daily hours spent per user have soared.<sup>[345](#)</sup>
- Meta Platforms Inc. plans to cut expenses by at least 10%, including staff reductions, due to stalling growth and increased competition, while Alphabet Inc.'s Google has also required some employees to apply for new jobs as part of its cost-cutting measures.<sup>[346](#)</sup>
- Facebook is shutting down Bulletin, its newsletter platform launched last year as a competitor to Substack, despite having signed high-profile writers, and all writers on contracts will be paid in full.<sup>[347](#)</sup>
- Meta Platforms Inc. announced changes to the Facebook news feed that will allow users to choose "show less" or "show more" on posts to curate the content they see on the platform.<sup>[348](#)</sup>
- Meta Platforms Inc. is facing issues with glitchy technology, uninterested users, and a lack of clarity about what it will take to succeed with its flagship metaverse offering for consumers, Horizon Worlds, falling short of internal performance expectations.<sup>[349](#)</sup>
- A letter addressed to Mark Zuckerberg from a long-term shareholder, who supports the company's mission, but encourages Meta to streamline and focus on its path forward. Despite the company's large number of employees and numerous investments, its growth rate has slowed down, leading to a decline in the share price and a loss of confidence from investors. The shareholder suggests a three-step plan to double FCF and focus the company's investments, including a 20% reduction in headcount expenses by January 1, 2023, an annual capex reduction of at least \$5 billion, and a limit of \$5 billion per year investment in the metaverse/Reality Labs. The shareholder believes the future lies in AI and encourages Meta to invest in this technology.<sup>[350](#)</sup>

# Assumptions

FY2022 | Q3

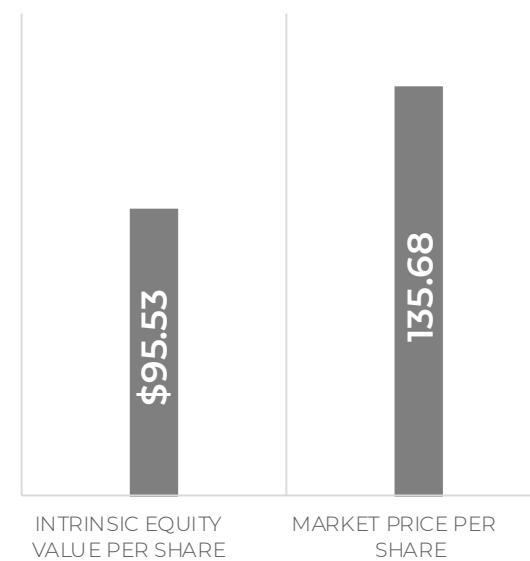
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$118,115	10.00%	3.83%	3.83%	Meta's revenue growth depends on advertising, driven by Reels, AI-driven discovery, and Messaging. However, macroeconomic conditions, iOS changes, inflation, high-interest rates, and competition from TikTok may offset growth by creating market uncertainty and making companies more cautious about advertising spending.
OPERATING MARGIN	39.69%	15.00%	30.00%	30.00%	Firstly, macroeconomic conditions, iOS changes, inflation, high-interest rates, and competition could lead to market uncertainty and cautious advertising spending, negatively impacting operating margins. Secondly, the increase in investments in Reality Labs represents a significant cost to the company, further pressuring margins. Lastly, an increase in capital expenditures (CAPEX) could further reduce margins by increasing costs for the company.
TAX RATE	18.49%	18.49%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.65	RIR =	23.18%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	21.00%	Marginal ROIC =	8.49%	16.52%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		13.83%	11.52%	11.52%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2022 | Q3

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$129,927	34.75%	\$45,149	\$36,800	\$18,193	\$18,607
2	\$142,919	29.81%	\$42,607	\$34,729	\$20,013	\$14,716
3	\$157,211	24.87%	\$39,106	\$31,875	\$22,014	\$9,861
4	\$172,932	19.94%	\$34,478	\$28,103	\$24,215	\$3,887
5	\$190,225	15.00%	\$28,534	\$23,257	\$26,637	-\$3,379
6	\$206,901	30.00%	\$62,070	\$49,536	\$25,685	\$23,852
7	\$222,484	30.00%	\$66,745	\$52,131	\$24,004	\$28,128
8	\$236,496	30.00%	\$70,949	\$54,207	\$21,583	\$32,625
9	\$248,473	30.00%	\$74,542	\$55,684	\$18,447	\$37,237
10	\$257,989	30.00%	\$77,397	\$56,500	\$14,658	\$41,841
Terminal year	\$267,870	30.00%	\$80,361	\$58,664	\$13,598	\$45,065

The Value		
Terminal value		585,808
PV(Terminal value)		170,555
PV (CF over next 10 years)		93,583
Value of operating assets	\$	264,138
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		41,776
Value of firm	\$	305,914
- Debt value of lease		(20,185)
- Total Interest Bearing Debt		(25,900)
- Preferred Stock		-
Market Value of Equity	\$	253,301
- Options outstanding		-
Value of Equity in Common Stock	\$	253,301
Number of shares (primary)		2,652
Intrinsic Equity Value per share	\$	95.53



**142.03%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2022**

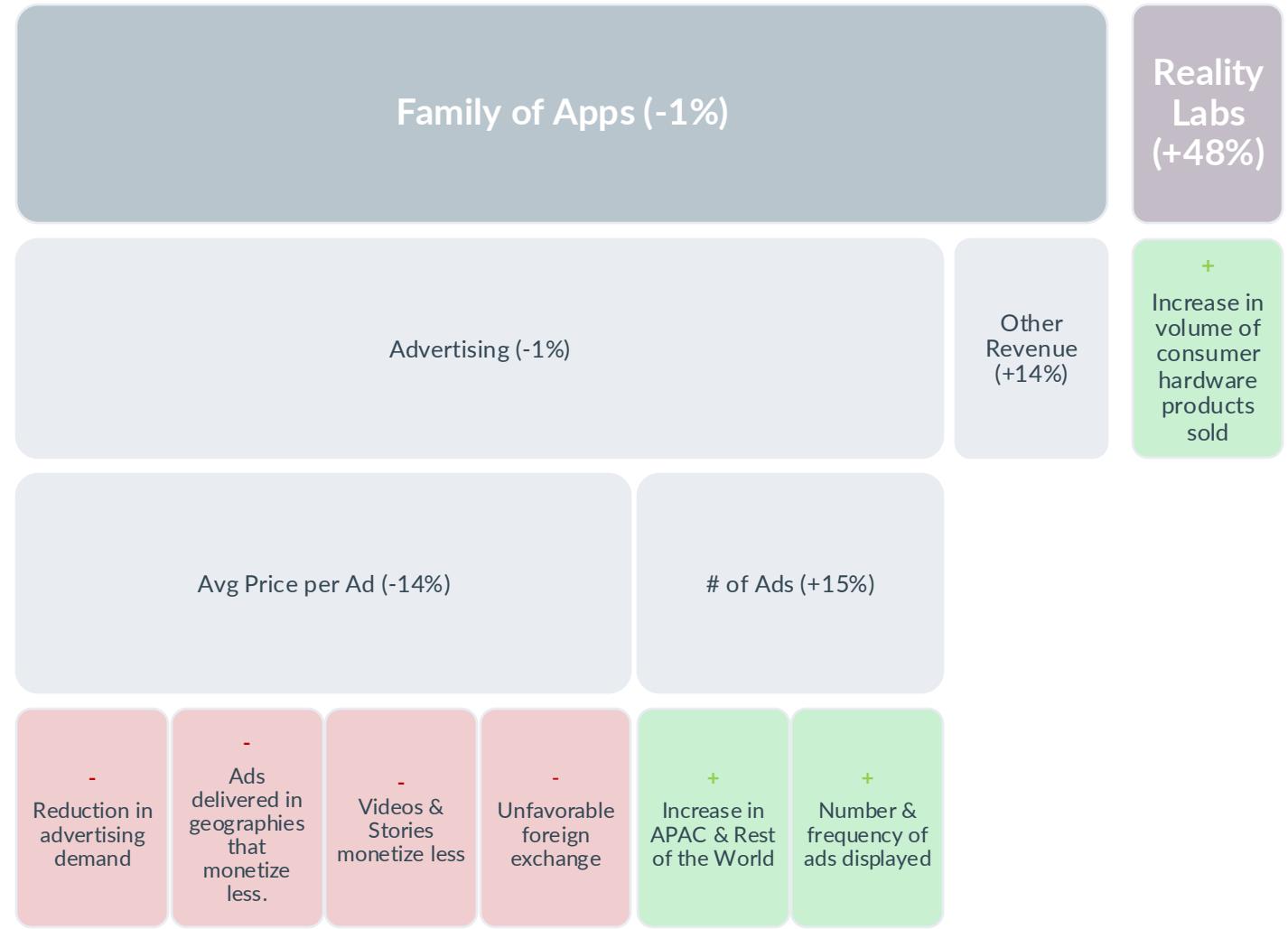
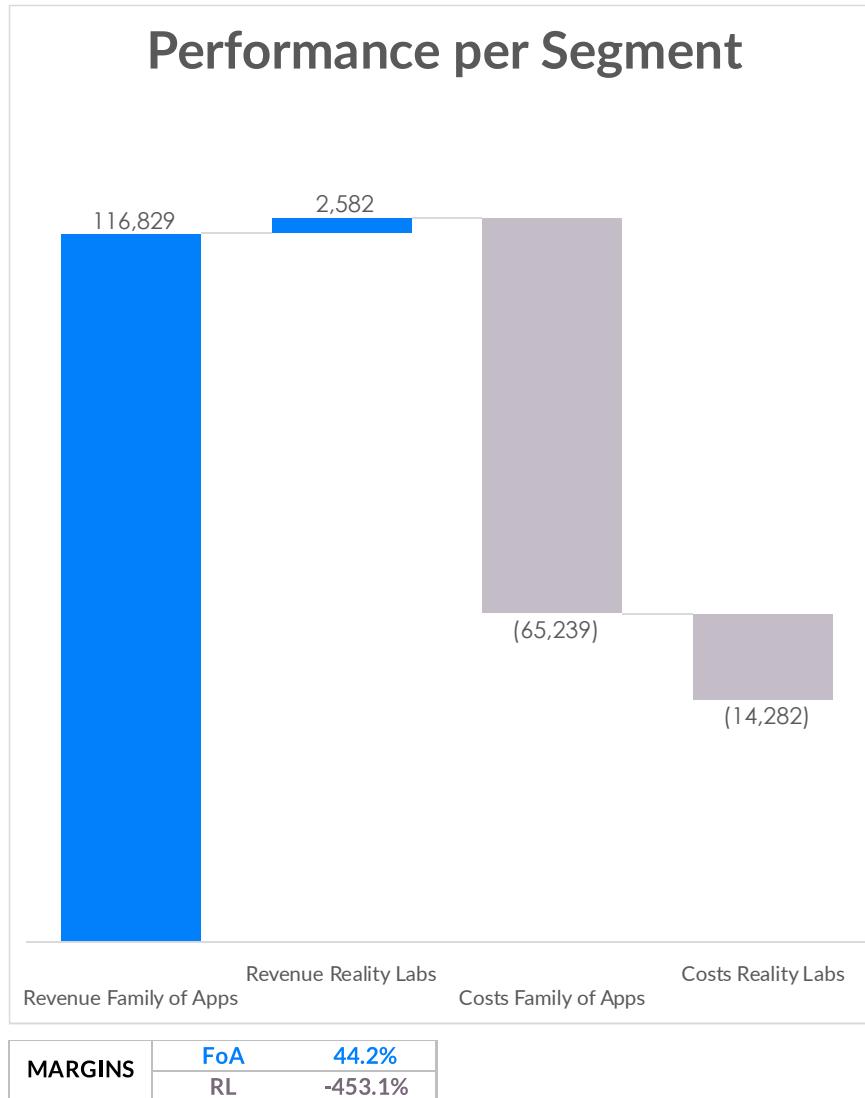
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# **Q2 Results**

April – June 2022

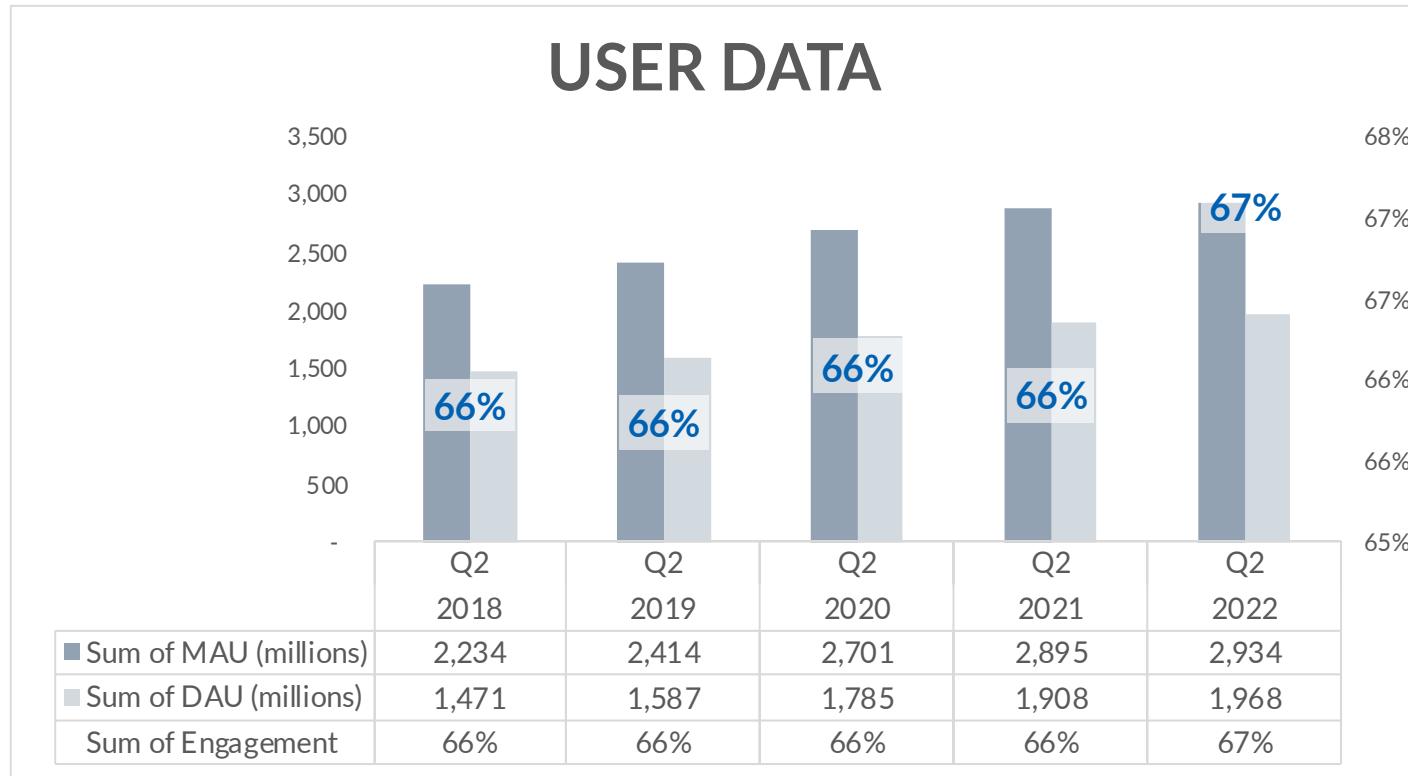
# Narrative | Segment Drivers

FY2022 | Q2

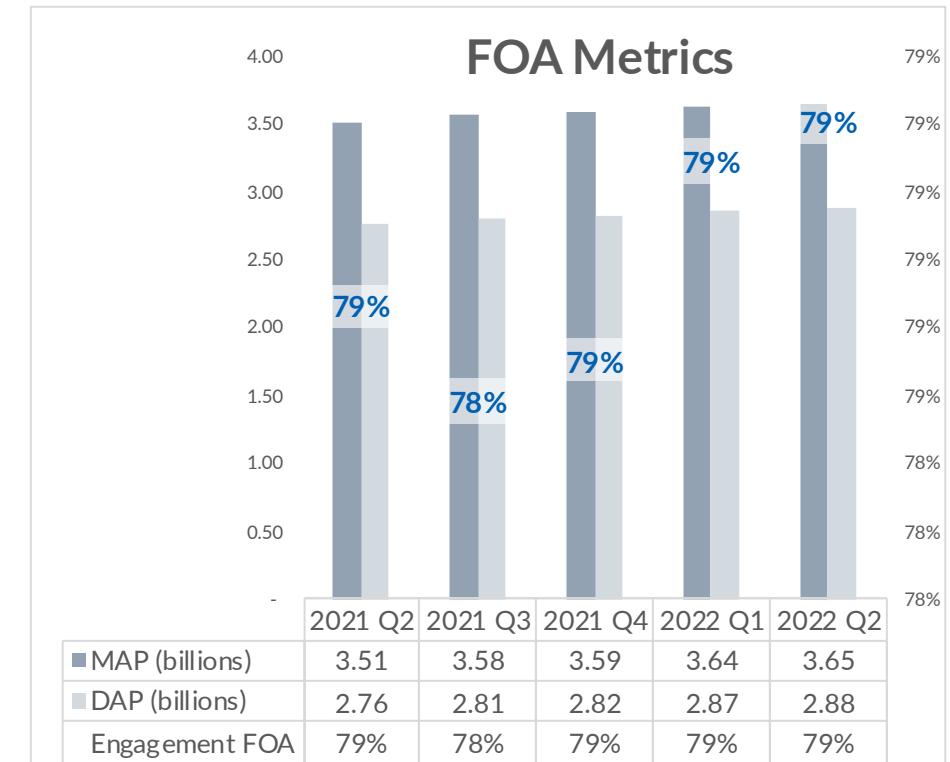


# Narrative | User Data

FY2022 | Q2



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2022 | Q2

## COMPANY OUTLOOK

- Reduction in advertising demand driven by reduced marketer spending as a result of a more challenging macroeconomic environment.
- Appreciation of US dollar relative to other foreign currencies also had negative impact on advertising revenue.
- Continued limitations to ad targeting and measurement tools from changes to iOS operating system. Expected to continue from further possible changes + additional regulation.
- Softening impact of COVID which drove a shift to online activities are now moving back to offline.
- Strong competition have reduced user engagement + Reels still not monetizing at same rate as Feed.
- Impact of War on Ukraine with access to Facebook and Instagram being restricted + services being prohibited by Russian government.
- Focused on long-term investments that will position them to come out stronger from this economic downturn including working on discovery engine + Reels, new ads infrastructure and the Metaverse.
  - Are slowing the pace of some of the investment taking into account priorities for the future.
  - Will be steadily reducing headcount growth – many teams are going to shrink to shift energy to other areas of the company. Expect to get more done with fewer resources.
- 2 waves driving business: AI & Metaverse.
  - AI: building recommendation systems across all types of content is the focus.
    - AI is capable of finding more interesting content which would increase engagement. This increases business opportunity.
    - Reels driving +30% of engagement in IG and FB.
    - New social trend is for people to discover content and share it with their friends through private messaging. Creates a flywheel of discovery and social connection.
  - Metaverse: by developing these platforms will have more freedom to build these experiences rather than being limited by constraints that competitors place.
    - Next milestones include continuing expansion of Horizon, continue to improve avatars, launch avatar digital store & release of project Cambria.
- Announced that Sheryl Sandberg, current COO, is leaving the company but will remain in Meta's board. She is being replaced by Javier Olivan who has been in Meta for 15 years.
- Rising inflation and looming recession will affect results.

# Narrative | General Information

FY2022 | Q2

## OTHER RELEVANT INFORMATION

- Meta's e-commerce division, developed in 2020 due to changing digital ad market and increased online shopping, remains a work in progress, with several senior executives leaving, but Meta is confident in its potential and plans to expand availability of ads in Facebook and Instagram Shops.<sup>[328](#)</sup>
- Inflation fears, supply-chain shortages, the war in Ukraine, the pandemic, the rise of TikTok, and Apple's privacy changes have contributed to a slowdown in ad revenue growth for Google, Facebook, and Amazon, with Facebook posting its slowest revenue growth since going public, while TikTok's ad revenue is expected to triple this year, and Google and Meta are increasing their TikTok-like offerings.<sup>[329](#)</sup>
- Sheryl Sandberg, who guided Meta's advertising business and still accounts for 97% of the company's revenue, stepped down as Meta's COO to focus more on family and philanthropy, raising questions about the future course of the company that is trying to transform into a "metaverse" company through its stepped-up investments in virtual reality and related technology, while Wall Street expects its ad revenue growth to slow down to 6% this year.<sup>[330](#)</sup>
- Sheryl Sandberg is leaving her role as COO of Meta Platforms after 14 years, with Javier Olivan taking over, and she cited feeling burned out and becoming a punching bag for the company's problems as reasons for her departure.<sup>[331](#)</sup>
- Sheryl Sandberg's departure as COO from Meta Platforms Inc. leaves a significant gap, but her success in making the platform a revenue-generating juggernaut provides a solid base for her successor, and analysts remain bullish on the company's prospects.<sup>[332](#)</sup>
- Facebook is moving its artificial intelligence development from central research labs to its product groups in order to accelerate its adoption and growth, breaking with recent practice at many companies.<sup>[333](#)</sup>
- Meta Platforms is reportedly shelving plans to release commercial AR glasses after its Reality Labs segment, which houses its augmented and virtual reality operations, lost nearly \$3 billion in the first quarter.<sup>[334](#)</sup>
- Meta Platforms agreed to adopt new online advertising practices and pay a civil penalty of \$115,054 to settle an investigation by federal officials who said its ads discriminated against users by race, gender and other factors, and plans to change its ads related to employment and credit in addition to housing.<sup>[335](#)</sup>
- Meta's head of engineering instructed his managers to identify and report low performers in the company to force them out, following CEO Mark Zuckerberg's announcement of weeding out underperforming employees.<sup>[336](#)</sup>
- The FTC is attempting to stop Meta from acquiring Within Unlimited and its virtual reality fitness app, Supernatural, alleging that the deal would violate antitrust laws and reduce competition in the market.<sup>[337](#)</sup>
- Meta Platforms, formerly known as Facebook, is struggling to revamp its image and reverse declining sales, with shares down over 50% this year, prompting the company to walk back some new Instagram features and throttle back the number of posts shown to users from accounts that they don't follow.<sup>[338](#)</sup>

# Assumptions

FY2022 | Q2

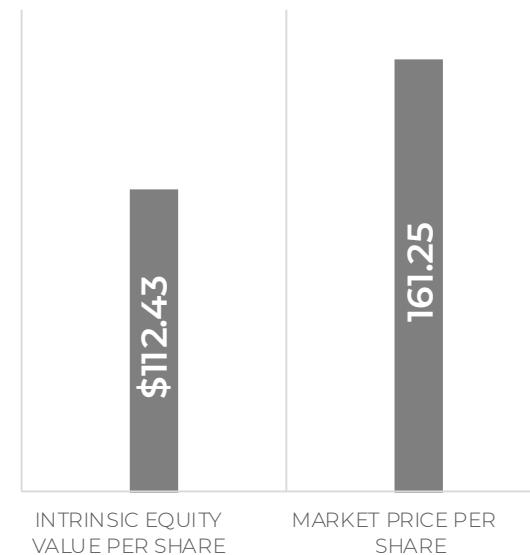
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$119,411	10.00%	2.98%	2.98%	Meta's revenue growth rate will be driven by advertising, Reels, and AI recommendation and discovery systems. However, challenging macroeconomic conditions, targeting and measurement limitations due to iOS and regulation, strong competition, and the war in Ukraine may offset this growth. Meta's focus on the Metaverse and innovation may provide new opportunities for revenue growth in the long run.
OPERATING MARGIN	41.55%	15.00%	30.00%	30.00%	Meta's operating margin is expected to be negatively impacted by several factors. The challenging macroeconomic environment, limiting targeting and measurement capabilities, strong competition, and the war in Ukraine are all expected to reduce the company's operating margin. Additionally, the company's high investment rates, particularly in reality labs, are contributing to this trend. Despite the company's claims to reduce investments, its TTM financials show a 32% YoY cost increase, while revenue only grew by 14%. The monetization of Reels is currently lower than that of Feed, and pushing for Reels to limit time spent in Feed may be a short-term headwind, despite the expected long-term tailwind.
TAX RATE	16.68%	16.68%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.69	RIR =	18.99%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	23.89%	Marginal ROIC =	7.35%	15.69%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		12.83%	10.69%	10.69%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2022 | Q2

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$131,352	36.24%	\$47,606	\$39,667	\$17,305	\$22,363
2	\$144,487	30.93%	\$44,694	\$37,240	\$19,035	\$18,205
3	\$158,936	25.62%	\$40,722	\$33,931	\$20,939	\$12,992
4	\$174,830	20.31%	\$35,509	\$29,588	\$23,033	\$6,555
5	\$192,313	15.00%	\$28,847	\$24,036	\$25,336	-\$1,300
6	\$208,844	30.00%	\$62,653	\$50,911	\$23,957	\$26,955
7	\$223,864	30.00%	\$67,159	\$53,186	\$21,767	\$31,419
8	\$236,821	30.00%	\$71,046	\$54,798	\$18,777	\$36,020
9	\$247,203	30.00%	\$74,161	\$55,669	\$15,046	\$40,623
10	\$254,570	30.00%	\$76,371	\$55,751	\$10,676	\$45,075
Terminal year	\$262,156	30.00%	\$78,647	\$57,412	\$10,902	\$46,510

The Value		
Terminal value		603,002
PV(Terminal value)		190,931
PV (CF over next 10 years)		115,799
Value of operating assets	\$	306,730
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		40,489
Value of firm	\$	347,219
- Debt value of lease		(22,468)
- Total Interest Bearing Debt		(16,067)
- Preferred Stock		-
Market Value of Equity	\$	302,148
- Options outstanding		-
Value of Equity in Common Stock	\$	302,148
Number of shares (primary)		2,688
Intrinsic Equity Value per share	\$	112.43



**143.43%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2022**

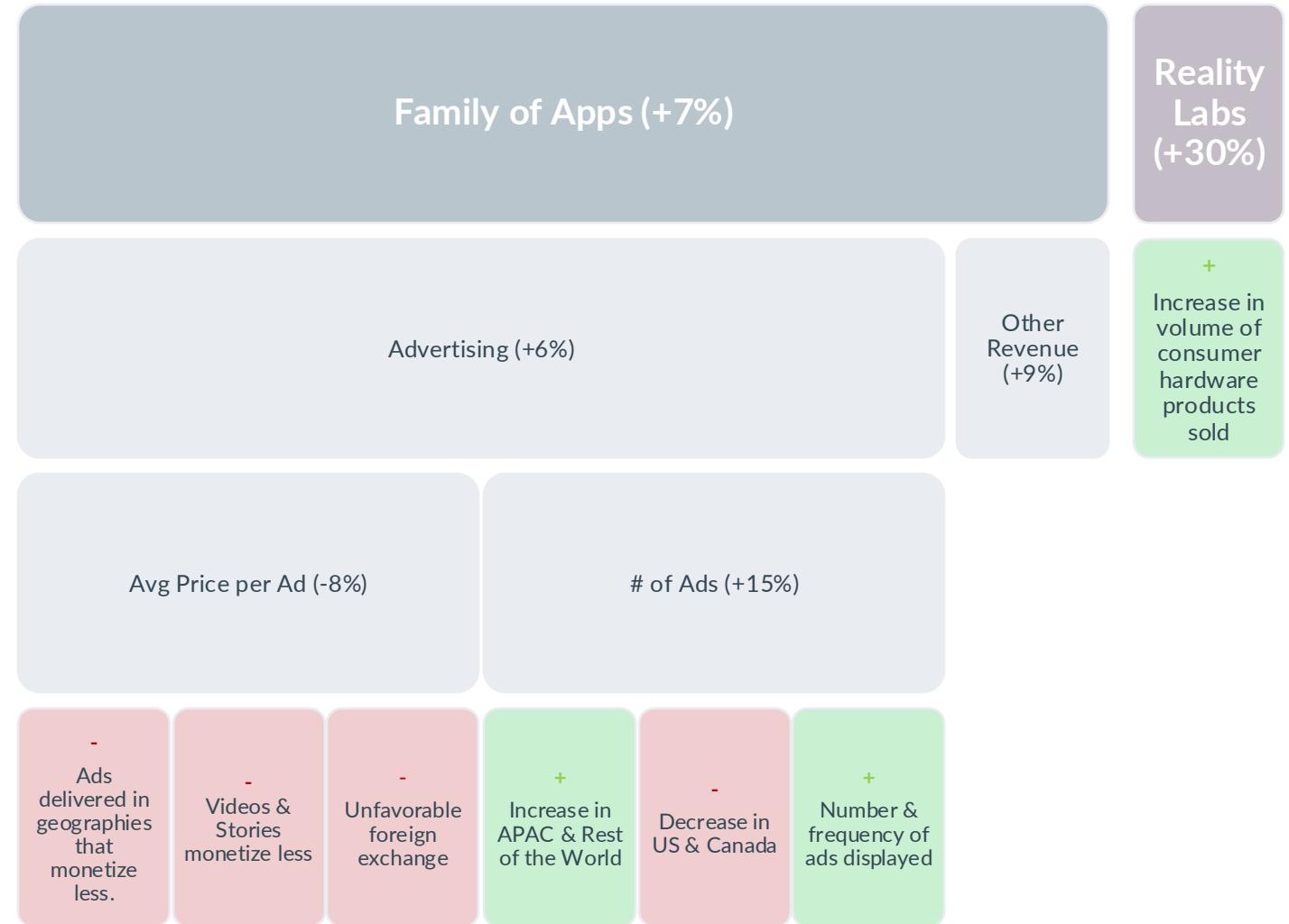
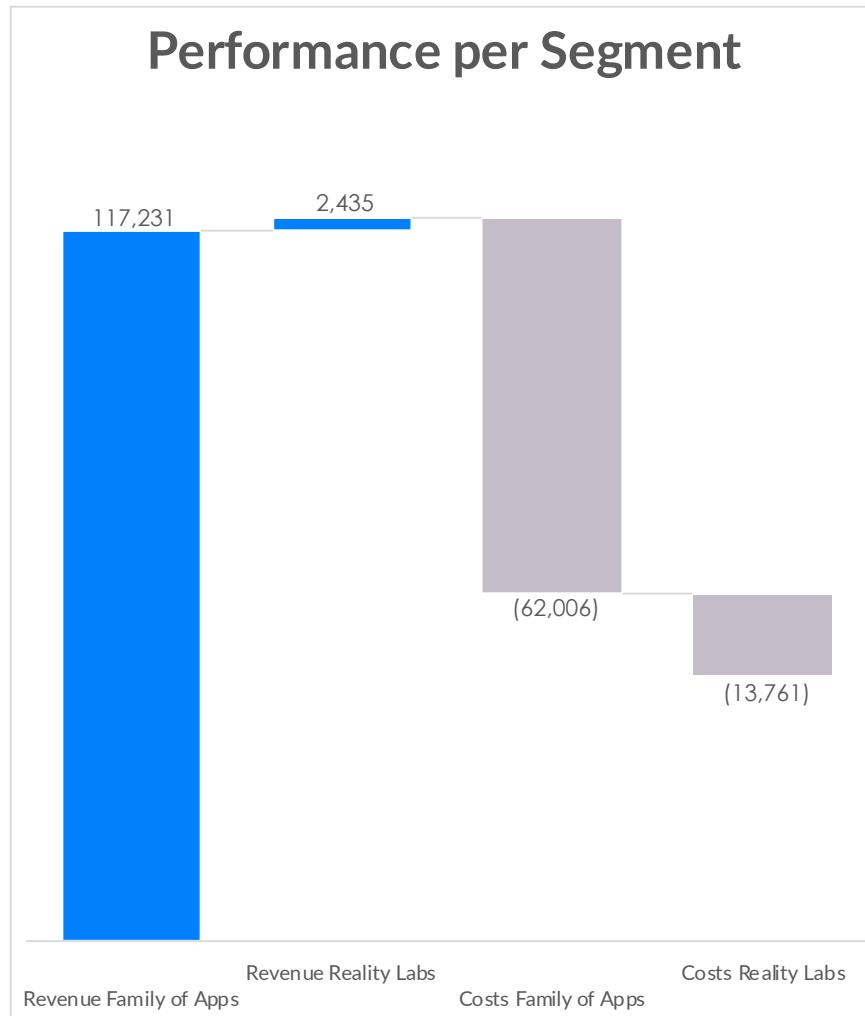
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# **Q1 Results**

January – March 2022

# Narrative | Segment Drivers

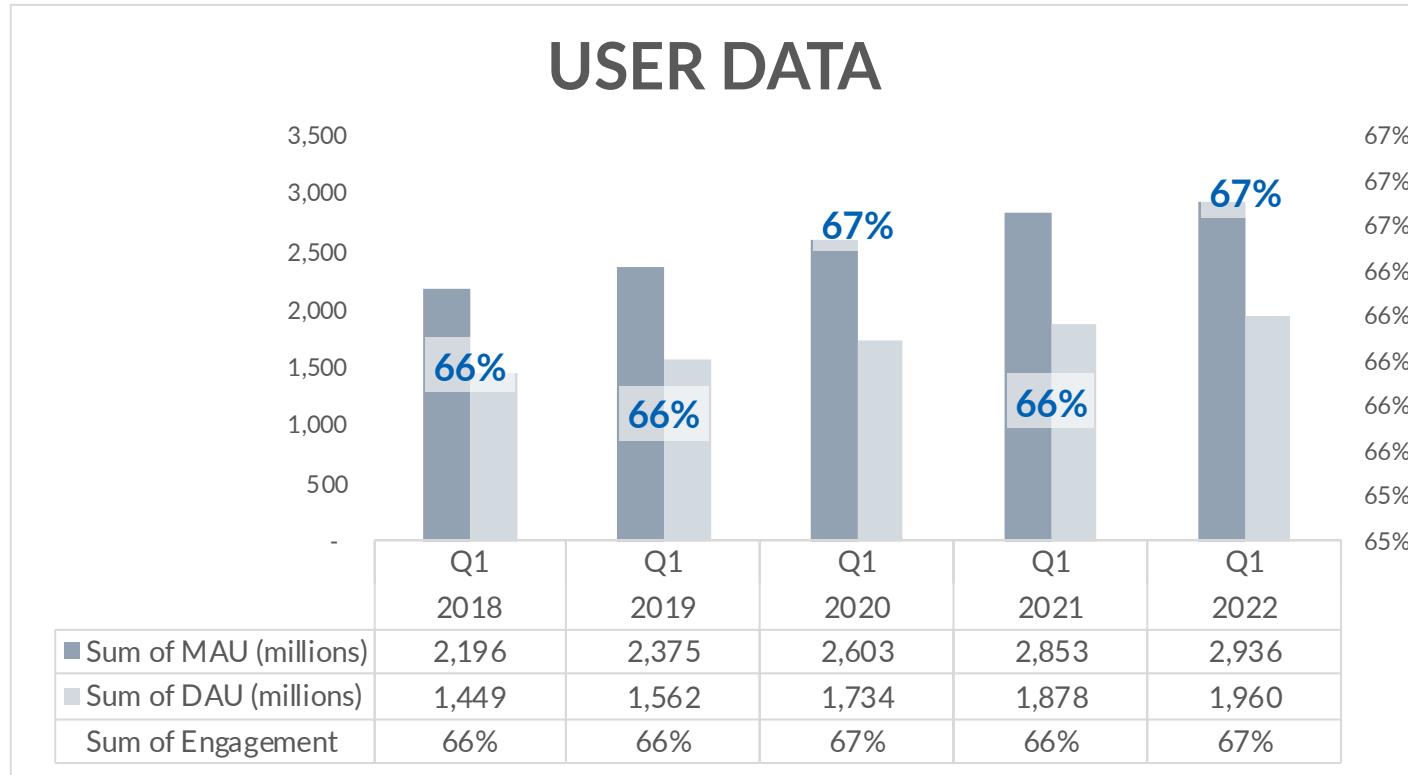
FY2022 | Q1



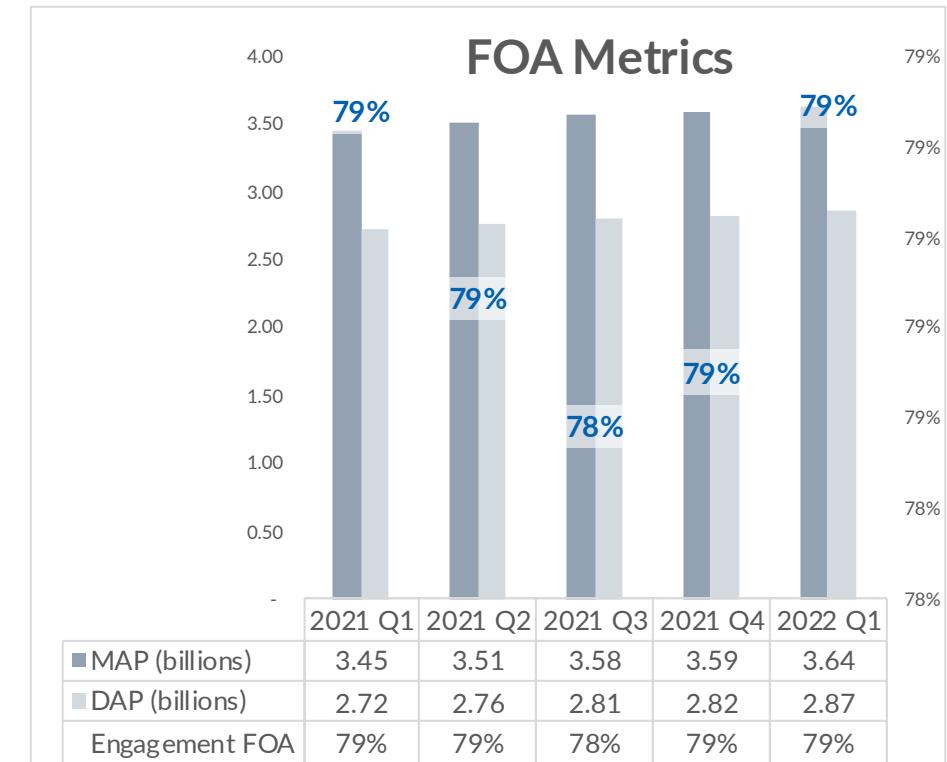
MARGINS	FoA	47.1%
	RL	-465.1%

# Narrative | User Data

FY2022 | Q1



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2022 | Q1

## COMPANY OUTLOOK

- Advertising revenue adversely affected by reduced market spending as a result of limitations on ad targeting and measurement tools arising from iOS changes. Expect this to continue in the future.
  - Having to grow 1<sup>st</sup> party understanding of what people are interested in by making it easier for people to engage with businesses in their apps.
- Softening of advertising demand as activity that shifted online due to COVID is returning to in person.
- Competitive products and services have reduced some users' engagement with Meta's products and services.
  - In response, have introduced new features such as Reels which is growing in usage but currently not monetizing at the same rate as Feed or Stories.
- Due to war in Ukraine, access to FB and IG was restricted in Russia, affecting user growth and engagement. Meta stopped accepting ads from Russian advertiser globally. Expected to continue to impact advertising revenue in the future. Creates an uncertain environment.
- Appreciation of the USD has negatively impacted results.
- Anticipate that additional investment in servers, datacenter capacity, network infrastructure, and office facilities as well as scaling headcount to support growth, including RL initiatives, will continue to drive expense growth in 2022. Expect expense growth rate to exceed revenue growth rate.
  - Goal over the next years is to generate sufficient revenue growth from FoA in order to invest in RL while still growing overall profitability.
  - Possible that prolonged macroeconomics or business uncertainty could force them to trade-off against shorter-term goals.
- Video continues to be a strong source of engagement with +50% of time-spent overall in Video. +20% of the time-spent was exclusively in Reels.
- Seeing shift in Feed from being almost exclusively curated by social graph to having more recommended by AI, even if the content wasn't posted by a friend or someone you follow.
  - Unlocks interesting and useful videos/ posts that you might otherwise miss and more opportunities for ads.
- AI is powering the discovery engine. Will help build platform for creators.
  - Are making major investments in AI – drives better recommendations, higher returns for advertisers and increases revenue growth. Long-term, expect this to be their competitive advantage.
- Metaverse: working on building out the experience on Horizon (social platform) and continue developing VR tools.
- Working on developing privacy-enhancing tech that minimizes the amount of personal information that they process while allowing to show relevant ads and measure performance – are collaborating across the industry on these and other standards.

# Narrative | General Information

FY2022 | Q1

## OTHER RELEVANT INFORMATION

- Meta Platforms Inc. reported lower-than-expected profits, lost daily users, and suffered a drop in share prices, as the company faces challenges from Apple's changes and criticism from lawmakers and users over platform flaws, while also investing in initiatives like the metaverse.<sup>[317](#)</sup>
- Snap Inc. reported its first quarterly profit, beating Wall Street expectations, and signaling its adaptation to the digital-advertising market disruptions caused by Apple's privacy policy changes, while developing tools to assist advertisers in addressing the issue, with shares surging over 50% in after-hours trading.<sup>[318](#)</sup>
- Meta's Instagram Reels is growing rapidly, but is still lagging behind TikTok, which has become the most downloaded app of 2021 and is more popular among young users. Reels is Meta's answer to TikTok but has started cannibalizing usage of Instagram and Facebook's Feed and Stories features. While Metas creator fund has attracted some creators to Reels, many still make most of their revenue from brand deals on TikTok.<sup>[319](#)</sup>
- Ad buyers are cutting their spending on Facebook and Instagram due to Apple's privacy feature, with Meta expected to take a \$10 billion hit to sales this year, and shifting their ad money to Google, Amazon, and other platforms; however, Meta is developing new technology to give marketers nearly as much information about ad performance as before the Apple changes and is appealing to users to opt into device tracking.<sup>[320](#)</sup>
- Meta Platforms launches Reels globally for Facebook users and introduces new features for advertisers, as the company increases its counterattack against TikTok, while also coping with the impact of Apple's privacy feature.<sup>[321](#)</sup>
- Meta's Quest 2 is the most popular VR headset on the market, despite issues with battery life, navigation, and safety features, and the company plans to release a new headset with more sensors and redesigned controllers; Sony also announced its new PlayStation VR2 headset, while Meta is exploring a wrist wearable to detect precise finger and hand movements, and the company's Project Nazare AR glasses are still a few years out.<sup>[322](#)</sup>
- Major companies like Meta Platforms Inc. are investing heavily in AI research and development, with Meta's AI Research SuperCluster set to house the world's fastest graphics processing units and be used to create immersive experiences in the metaverse, analyze text and images, and identify harmful content.<sup>[323](#)</sup>
- The EU and UK have launched antitrust investigations into Google and Facebook over potentially illegal cooperation in digital advertising, specifically regarding a 2018 deal known as Jedi Blue, which both companies dispute.<sup>[324](#)</sup>
- Instagram and parent company Meta Platforms have launched new parental control tools for Instagram, including monitoring and limiting teens' time spent on the app and controlling who they follow, with plans to expand the tools to other platforms in the future, but experts warn that the tools are not enough to change what teens consume on the app. Meta will also introduce parental controls for its Quest VR headsets in April, including limiting access to content that is not age-appropriate.<sup>[325](#)</sup>
- TikTok is a tough competitor for Meta Platforms, but Reels is their fastest-growing content format and could potentially share ad revenue with creators. However, Meta's stock has dropped, and users are moving on to other platforms.<sup>[326](#)</sup>
- Meta Platforms, through its messaging platform WhatsApp, has struggled to establish a foothold in India's mobile payments market, which is dominated by Google Pay and PhonePe, with WhatsApp's payment share standing at only 0.02%, and new rules may encourage more competition.<sup>[327](#)</sup>

# Assumptions

FY2022 | Q1

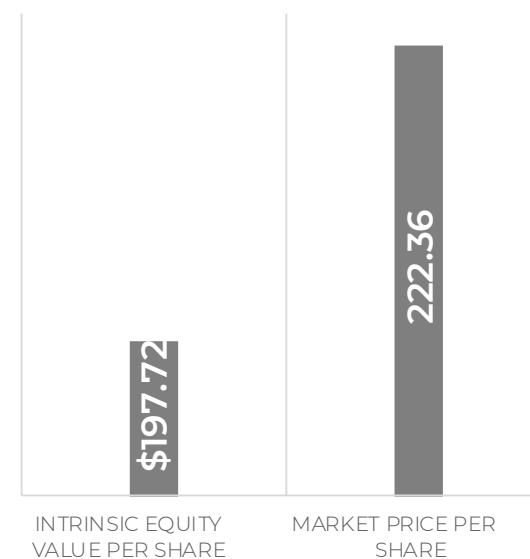
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$119,666	10.00%	2.32%	2.32%	Meta Platforms' future revenue growth rate is expected to be driven by advertising, with AI-powered discovery engines creating opportunities for more ad inventory. The deployment of Reels worldwide and the release of new tools for creators and advertisers should also drive growth and engagement, while the Quest 2 is the most popular headset in the market. Factors that will offset growth include limitations in targeting and measurement tools due to iOS changes, softening of e-commerce, strong competition from TikTok, limited access in Russia due to the War on Ukraine, and struggling with WhatsApp Payments in India. The appreciation of the US dollar may also have an impact.
OPERATING MARGIN	43.78%	15.00%	30.00%	30.00%	Meta Platforms' future operating margin may be impacted by the company's continued investments for growth, including in Reality Labs, where expenses are expected to grow at a higher rate than revenue. Additionally, macroeconomic factors add uncertainty that could impact both revenues and margins. The shift towards Reels, which monetizes at a lower rate than Feed, may also impact operating margins in the future.
TAX RATE	16.45%	16.45%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.75	RIR =	18.40%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	27.35%	Marginal ROIC =	6.32%	12.61%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.13%	7.61%	7.61%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2022 | Q1

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$131,633	38.03%	\$50,055	\$41,821	\$16,003	\$25,818
2	\$144,796	32.27%	\$46,725	\$39,039	\$17,603	\$21,436
3	\$159,275	26.51%	\$42,229	\$35,282	\$19,364	\$15,919
4	\$175,203	20.76%	\$36,366	\$30,384	\$21,300	\$9,084
5	\$192,723	15.00%	\$28,908	\$24,153	\$23,430	\$723
6	\$209,035	30.00%	\$62,711	\$51,072	\$21,814	\$29,258
7	\$223,517	30.00%	\$67,055	\$53,195	\$19,367	\$33,828
8	\$235,569	30.00%	\$70,671	\$54,572	\$16,117	\$38,455
9	\$244,653	30.00%	\$73,396	\$55,128	\$12,147	\$42,980
10	\$250,329	30.00%	\$75,099	\$54,822	\$7,590	\$47,232
Terminal year	\$256,137	30.00%	\$76,841	\$56,094	\$10,321	\$45,773

The Value		
Terminal value		865,435
PV(Terminal value)		376,724
PV (CF over next 10 years)		156,782
Value of operating assets	\$	533,506
- Tax due on trapped cash brought back		-
+ Cash & Marketable Securities		43,890
Value of firm	\$	577,396
- Debt value of lease		(21,469)
- Total Interest Bearing Debt		(14,053)
- Preferred Stock		-
Market Value of Equity	\$	535,099
- Options outstanding		-
Value of Equity in Common Stock	\$	535,099
Number of shares (primary)		2,706
Intrinsic Equity Value per share	\$	197.72



**112.46%**

PRICE AS % OF VALUE

VALUATION YEAR

# FY2021

January – December 2021



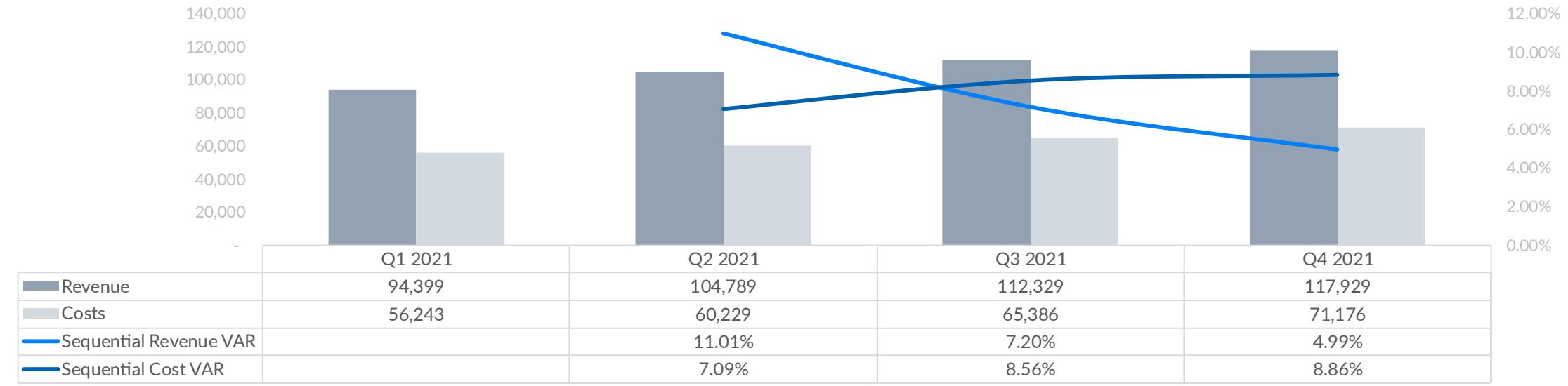


# General Narrative

- ∞ Meta has a challenging year facing issues limitations in targeting and measurement tools due to regulatory environments and third-party operating systems, especially iOS. There is also continued public scrutiny, intensified by the recent release of the Facebook Files, and intense competition from TikTok. Additionally, global macroeconomic issues such as supply chain disruptions, labor shortages, and inflationary pressures are all affecting advertising budgets.
- ∞ Facebook has changed its name to Meta, indicating its dedication to the new computing platforms and the metaverse, which the company believes will be the next big thing in technology, similar to mobile. They have also made changes in reporting to increase transparency and separate their Family of Apps from Reality Labs, the metaverse efforts. Meta plans to make strong investments in this area.
- ∞ With video becoming a primary way for people to use Facebook products, Reels has become crucial for the company to fend off competition and maintain the revenue growth needed to continue investing in the next computing platform.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5-year CAGR was 30.51% as FB has grown into the social media behemoth it is today. As the years have progressed and it has reached saturation in mature markets, sequential growth has decreased YoY and is expected to continue to do so in the future. FB is still expected to have double digit growth as it remains a big player in advertising and develops new products to increase ad inventory as well as alternative revenue streams. With all the issues it is currently facing from public scrutiny, reputational damage and more rigorous regulation as well as restrictions from 3<sup>rd</sup> party operating systems, its revenues will be negatively impacted.

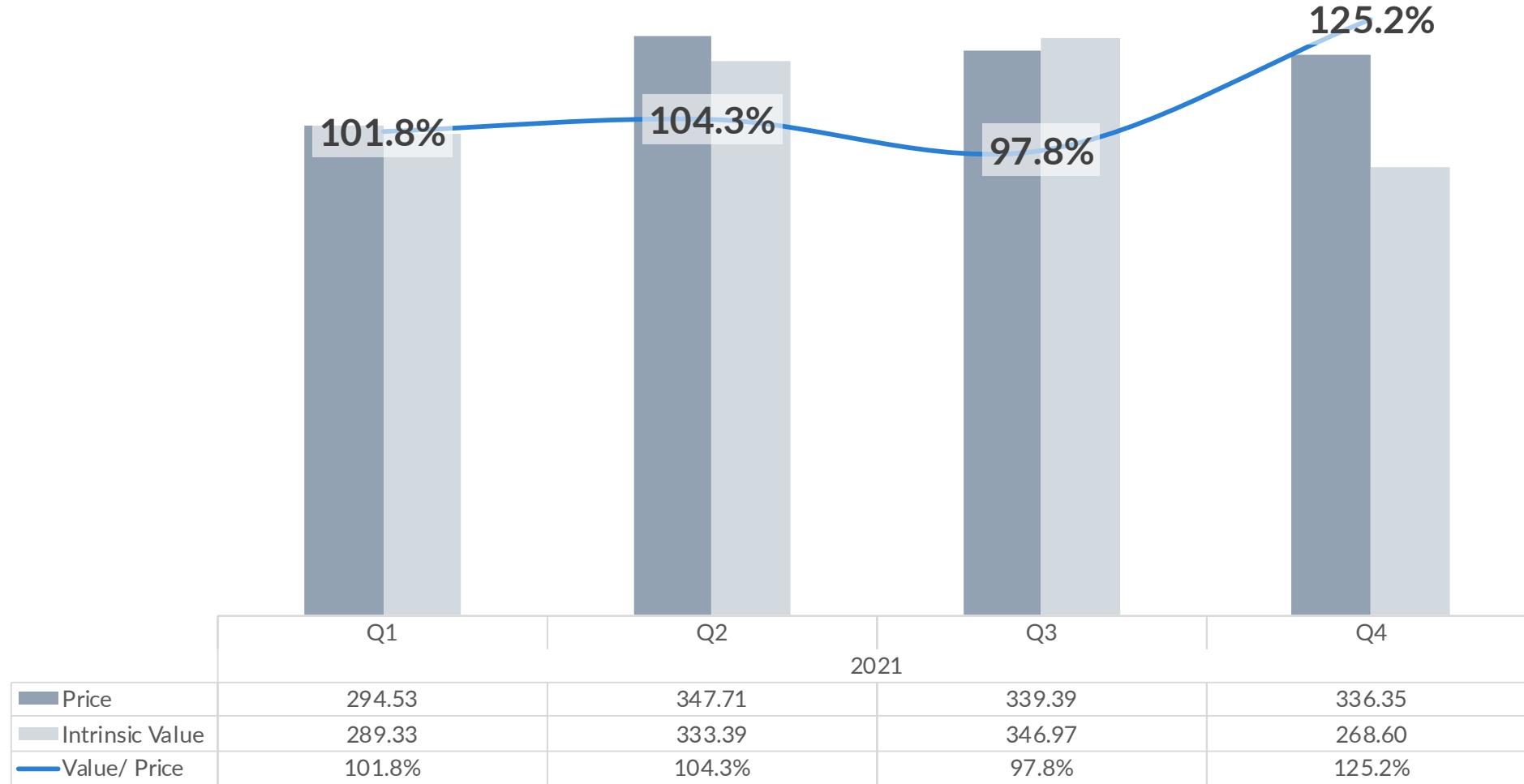
Costs 5-year CAGR was 36.59% as FB has needed to heavily invest in order to continue growing as well as additional investments in safety, security and privacy that increased significantly their YoY cost growth. This behavior is expected to continue in the near future as the company invests in both growth and privacy which will in turn affect margins. Additional to this, it is continuously investing more in the new computing platform and the Metaverse, which will negatively impact its margins.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Company changes its name to Meta to emphasize its focus on helping build the metaverse as the next computing platform.
- ∞ WhatsApp Payments live in India and approved in Brazil.
- ∞ Launch of Apple's new iOS which restricts measurements and targeting.
- ∞ Launch of ad campaign promoting targeted ads.
- ∞ Made ads available in Reels which is the main source for engagement growth. Planning on focusing more on Reels on all its platforms.
- ∞ Working on developing tools for businesses to offer seamless shopping experience from discover, to shop, to pay and get it delivered.
- ∞ Release of the Facebook Files, an investigation by the Wall Street Journal derived from documents provided by a Facebook whistleblower, where it shines a bad light on the company as shows that Facebook Inc. knows, in acute detail, that its platforms are riddled with flaws that cause harm, often in ways only the company fully understands.
- ∞ Shareholder urge Facebook to address harm on its platforms and improve overall governance.

# Intrinsic Value vs Price





FISCAL YEAR  
**2021**

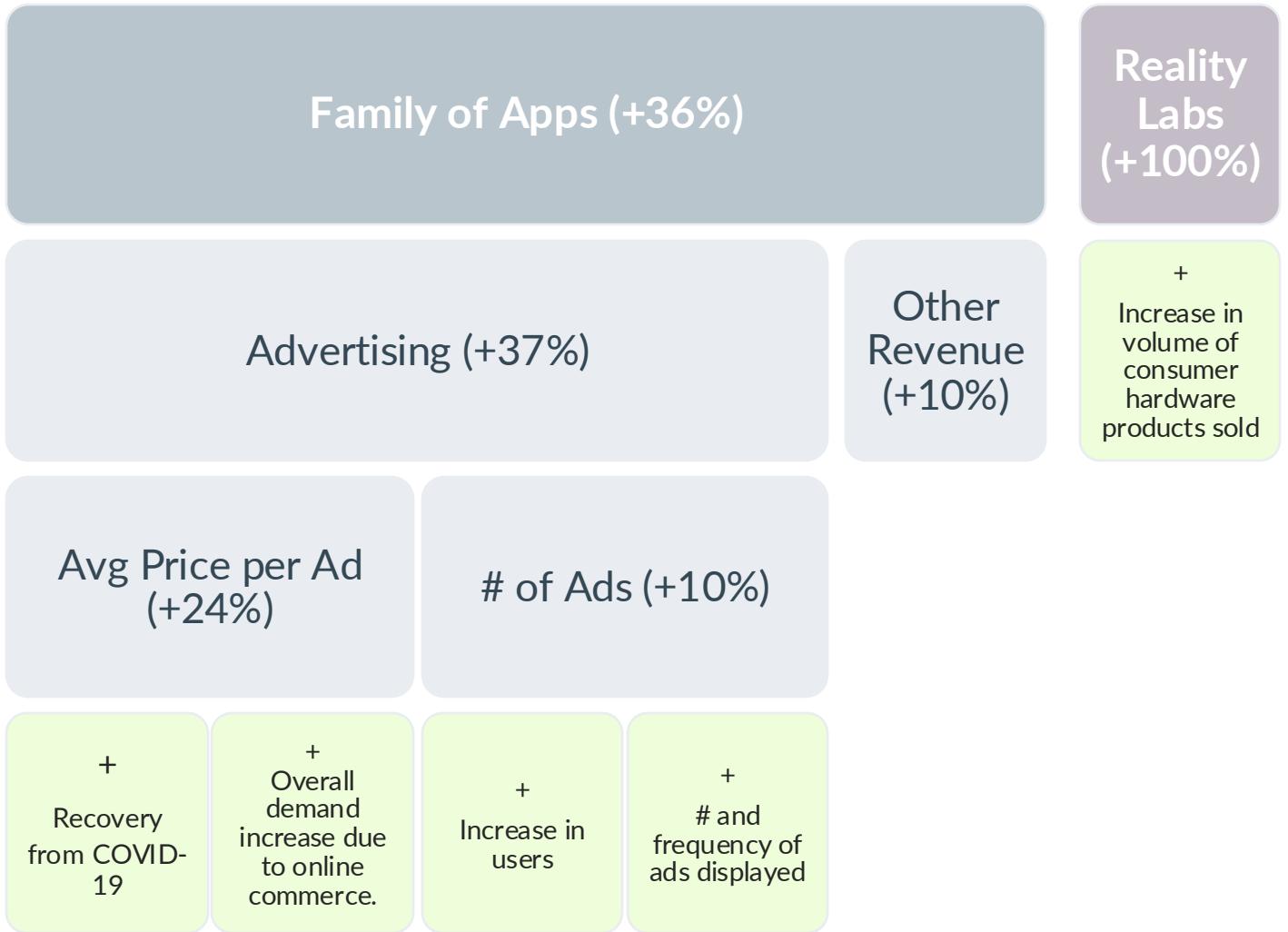
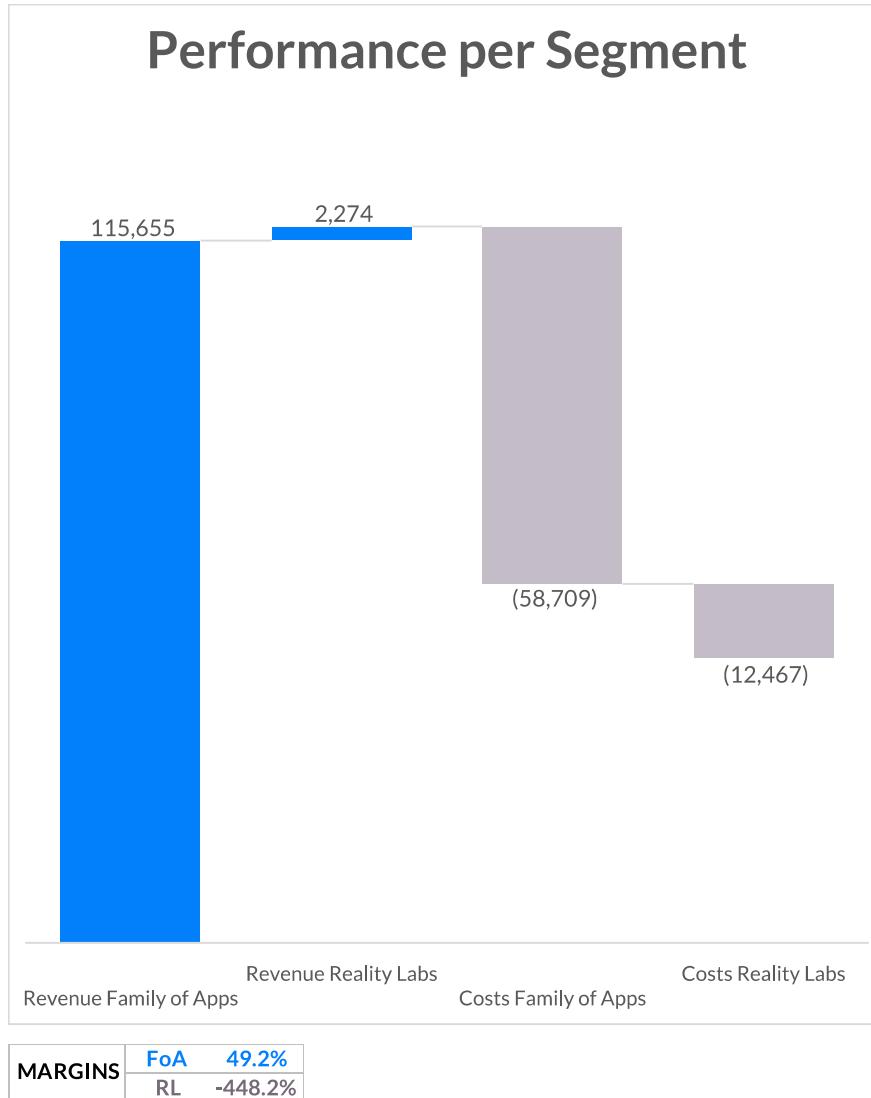
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# **Q4 Results**

October – December 2021

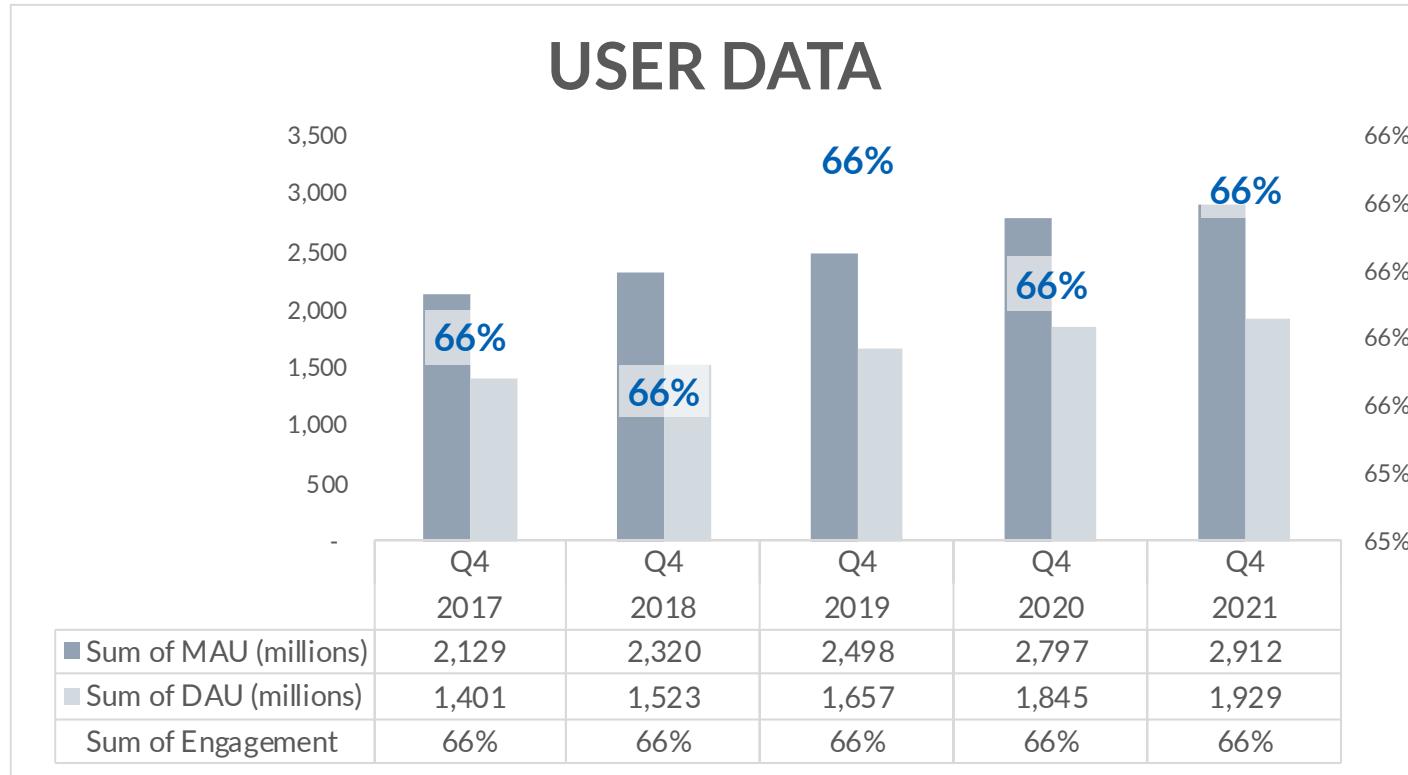
# Narrative | Segment Drivers

FY2021 | Q4

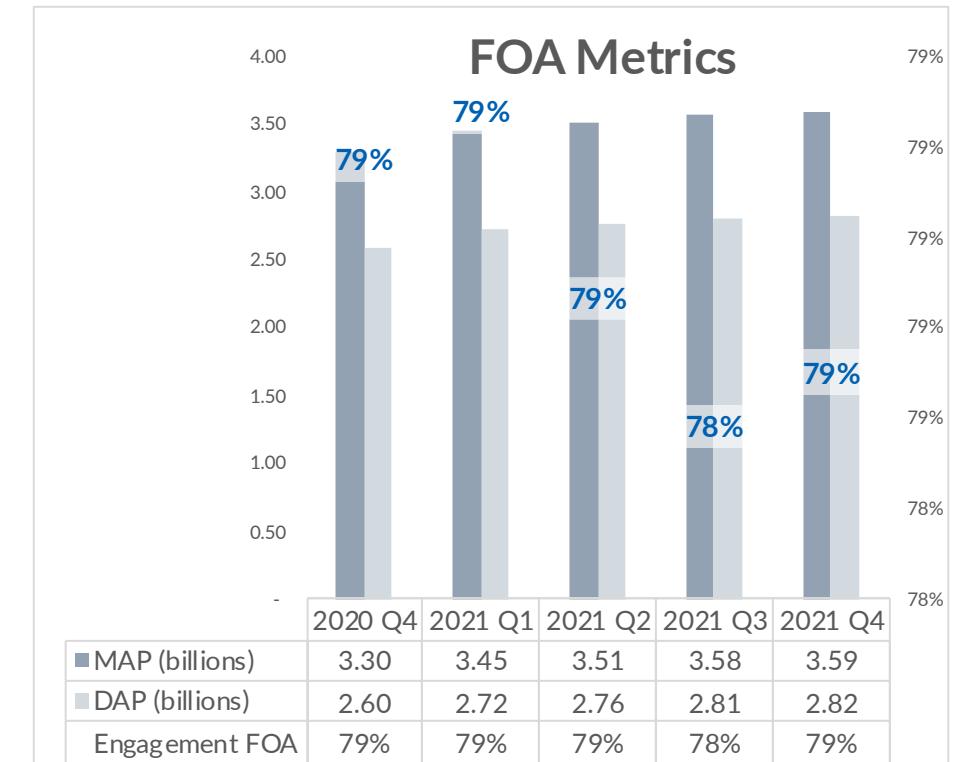


# Narrative | User Data

FY2021 | Q4



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2021 | Q4

## COMPANY OUTLOOK

- Changed name of company to Meta and changed reporting segments to Family of Apps (FB, IG, Messenger & WA) & Reality Labs.
  - Substantially all revenue for Family of Apps (FoA) is generated from selling advertisements to marketers.
  - Other revenue in FoA is generated from Payment infrastructure and other non-ad related revenue streams.
  - Reality Labs (RL) focuses on the efforts associated with the Metaverse including VR and AR platforms.
  - RL has a -54% YoY income loss due to important increase in costs, especially related to headcount increase in R&D.
- Focusing on 7 major investments: Reels, Community Messaging, Commerce, Ads, Privacy, AI and the Metaverse.
  - Reels: biggest contributor to engagement – working on building more monetization tools for creators and helping more people discover and interact with Reels.
  - Community Messaging: continue to work on business messaging. Partnering with Uber and JioMart to get services through chat. Building tools to make online shopping better for people.
  - Commerce: make the journey from discovering to purchasing easier.
  - Ads: rebuilding infrastructure so they can continue to grow and deliver high-quality personalized ads considering limitations due to Apple iOS changes and regulation.
  - Privacy: rebuilt privacy program and review process – encode privacy at a deeper level of technical foundation to make them more durable and make product development faster in evolving environment.
  - AI: enables better ads, content ranking and security + plays a role in commerce efforts. Announced AI Research Supercluster – will be world's fastest supercomputer once complete.
  - Metaverse: focused on foundational hardware and software that are required to build the experience.
- Competition has intensified – people have more choices and apps like TikTok are growing quickly. This is why Meta is focusing on Reels – best service for young adults.
  - Shift to Reels replaces time in News Feed and other higher monetization services – will affect revenue growth and margin in the short-term.
- Headwinds: Slow down of online commerce, first holiday season after Apple changes, global supply chain disruptions, labor shortages and inflationary pressures all impact ad spending from advertisers.
- Company is expecting lower revenue rate due to effect on impressions of competition and shift to Reels + will be lapping strong demand from previous year where Apple changes were still not in effect.
- iOS overall headwinds on the business in 2022 will be in the order of \$10B USD.

# Narrative | General Information

FY2021 | Q4

## OTHER RELEVANT INFORMATION

- Facebook is shutting down its facial-recognition system due to privacy concerns, which will affect features like automatic alt text, and comes amidst a series of changes, including a rebranding to Meta Platforms Inc. and pausing development of an Instagram for children product.<sup>[304](#)</sup>
- Meta Platforms Inc. is building a metaverse where people can work, play, socialize, and spend money as avatars, with Wall Street predicting its ad business growth will slow from nearly 37% in 2021 to just under 12% by 2024, while internal research reveals declining usage among teens and slower growth compared to TikTok.<sup>[305](#)</sup>
- Facebook's name change to Meta Platforms Inc. is aimed at demonstrating the company's commitment to the metaverse, but risks becoming a pithy incarnation of everything people dislike about the company, according to experts, with the move attracting criticism from some shareholders and people making fun of the new name.<sup>[306](#)</sup>
- European officials are using disclosures from Facebook whistleblower Frances Haugen to push for stricter regulations on big tech companies, including requiring large tech platforms to actively mitigate risks from illegal content or face fines, and several EU legislators argue that proposed legislation should tackle potentially harmful content that doesn't violate any laws or focus more on how companies recommend and spread content.<sup>[307](#)</sup>
- Facebook's parent company, Meta Platforms, will eliminate micro-targeting options for advertisers on sensitive topics such as politics, race, health, religion, and sexual orientation starting January 19, 2022, due to concerns about the potential for abuse of such practices. The move is a reversal from CEO Mark Zuckerberg's decision last year to overrule calls for stricter restrictions on such practices.<sup>[308](#)</sup>
- Human rights groups say Facebook is suppressing an independent report it commissioned to investigate hate speech on its services in India, where scrutiny of its operations is increasing, by narrowing the draft report's scope and delaying the process.<sup>[309](#)</sup>
- The UK competition regulator has directed Meta Platforms Inc. to sell Giphy due to concerns that its acquisition could limit competition among platforms and UK advertisers.<sup>[310](#)</sup>
- Rohingya refugees are suing Facebook for perpetuating genocide against the Muslim ethnic group in Myanmar, seeking damages of over \$150 billion.<sup>[311](#)</sup>
- Senators urge the Federal Trade Commission to investigate Facebook's alleged misinformation and overstated advertising reach, following whistleblower Frances Haugen's allegations, and Facebook denies intentionally misleading businesses.<sup>[312](#)</sup>
- Shareholders are urging Facebook's parent company, Meta Platforms, to address harm on its platforms and improve overall governance, with eight shareholder proposals filed for consideration at the company's annual meeting.<sup>[313](#)</sup>
- Meta Platforms removed 1,500 accounts linked to "cyber mercenaries" selling hacking and spying services to government and private clients, including a North Macedonian firm using a previously unknown vulnerability in Apple's software to hack iPhones, according to Citizen Lab. Facebook researchers and Citizen Lab say the spyware industry is growing beyond NSO.<sup>[314](#)</sup>
- Apple's iMessage, with its blue bubble, has become a dominant social network that has helped cement the iPhone's dominance among young smartphone users, leading to pressure to be part of the blue text group, despite efforts to make iMessage available on Android, and with some teens and college students reporting being ostracized or singled out for using green bubbles.<sup>[315](#)</sup>
- Former Facebook public-policy director for global elections, Katie Harbath, who joined Facebook as the first Republican employee, has left the company and is now advising lawmakers in Washington and Europe on legislation advocating more guardrails around social media, after expressing her doubts about the premise that more Facebook usage would make governments more transparent and expand people's ability to engage in public discourse.<sup>[316](#)</sup>

# Assumptions

FY2021 | Q4

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$117,929	15.00%	1.52%	1.52%	Meta's ad revenue is their primary revenue stream, with potential growth through ad spaces, particularly in Reels. However, the shift to Reels will initially hurt results as News Feed monetizes at a higher rate. Competition from TikTok, slow online commerce, iOS changes, and regulation development will offset growth. Meta plans to invest in commerce, messaging, and their computing platform.
OPERATING MARGIN	45.47%	15.00%	30.00%	30.00%	Meta's future operating margin is expected to be negatively impacted by several factors. Firstly, the shift to Reels will hurt margins as it monetizes less than News Feed. Secondly, the costs related to the Reality Lab investment will lead to an income loss. Additionally, Meta is changing its approach to privacy, which will incur costs, and they expect further costs to arise as more regulation is implemented. Furthermore, iOS changes will limit Meta's targeting and measurement capabilities. Lastly, investment costs associated with building a supercomputer for AI will also negatively impact Meta's operating margin.
TAX RATE	16.74%	16.74%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.76	RIR =	12.85%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	28.92%	Marginal ROIC =	9.96%	11.83%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.20%	6.83%	6.83%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2021 | Q4

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$135,618	39.37%	\$53,396	\$44,459	\$23,152	\$21,307
2	\$155,961	33.28%	\$51,902	\$43,215	\$26,625	\$16,590
3	\$179,355	27.19%	\$48,760	\$40,599	\$30,619	\$9,980
4	\$206,259	21.09%	\$43,506	\$36,224	\$35,212	\$1,013
5	\$237,197	15.00%	\$35,580	\$29,625	\$40,494	-\$10,869
6	\$266,382	30.00%	\$79,915	\$64,899	\$38,198	\$26,701
7	\$291,976	30.00%	\$87,593	\$69,336	\$33,498	\$35,838
8	\$312,157	30.00%	\$93,647	\$72,207	\$26,414	\$45,793
9	\$325,318	30.00%	\$97,595	\$73,248	\$17,225	\$56,023
10	\$330,263	30.00%	\$99,079	\$72,328	\$6,472	\$65,856
Terminal year	\$335,283	30.00%	\$100,585	\$73,427	\$9,434	\$63,993

The Value		
Terminal value		1,205,064
PV(Terminal value)		569,389
PV (CF over next 10 years)		156,795
Value of operating assets	\$	<b>726,184</b>
- Tax due on trapped cash brought back		(324)
+ Cash & Marketable Securities		47,998
Value of firm	\$	<b>773,858</b>
- Debt value of lease		(22,108)
- Total Interest Bearing Debt		(13,873)
- Preferred Stock		-
Market Value of Equity	\$	<b>731,101</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>731,101</b>
Number of shares (primary)		2,722
Intrinsic Equity Value per share	\$	<b>268.60</b>



**125.23%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2021**

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# **Q3 Results**

July – September 2021

# Narrative | Segment Drivers

FY2021 | Q3

## Advertising (+33%)

+22% increase in the average price per ad

↑ Recovery from declines in demand due to COVID.

+9% increase in the number of ads delivered

↑ Increase in user.

↑ Increase in # and frequency of ads displayed.

## Payments and Other Fees (+195%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

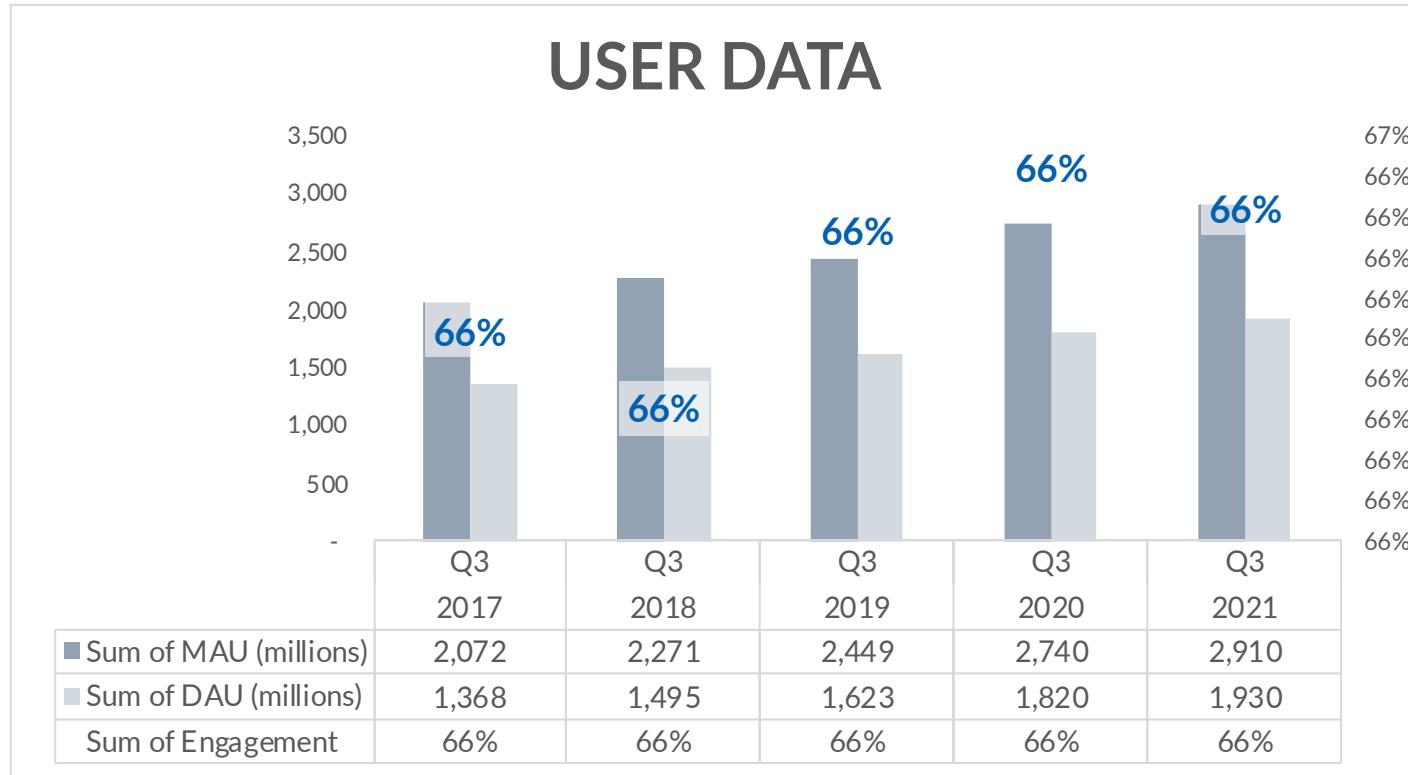
Consumer sales of hardware products.

↑ Delivery of VR headsets and related platform sales.

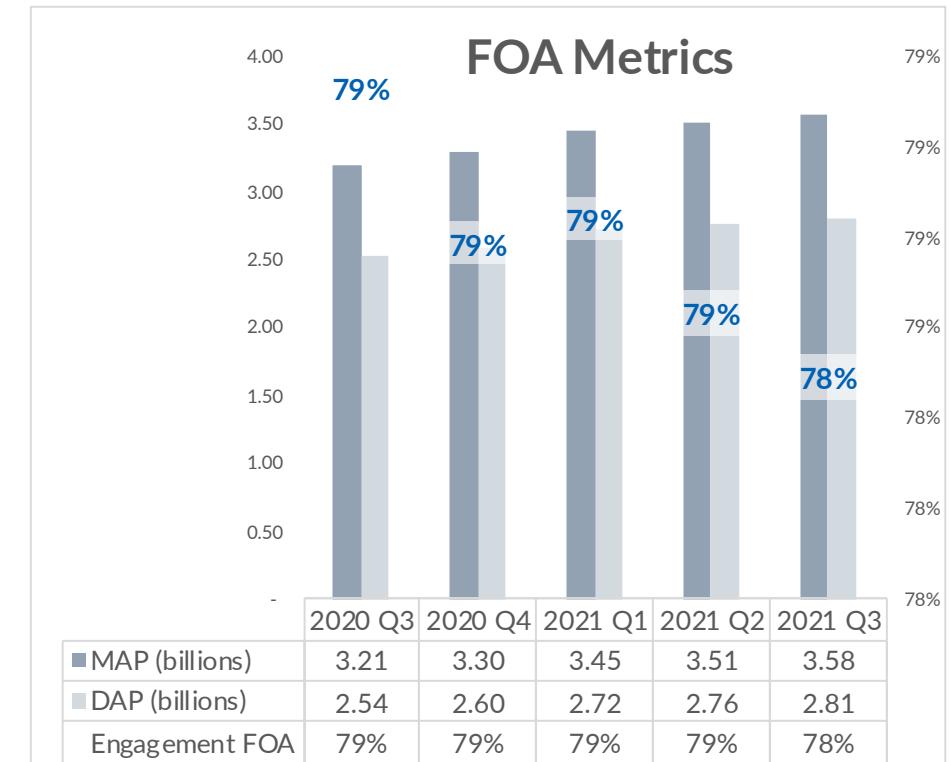
↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2021 | Q3



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2021 | Q3

## COMPANY OUTLOOK

- Apple's changes fully implemented, negatively impacting results.
  - Make accuracy of ads decrease – increases costs of driving outcomes for advertisers.
  - Measuring those outcomes become more difficult – believe are underreporting conversions in iOS devices.
- Recent debate around the company has been a coordinated effort to selectively use filtered documents to paint a false picture.
- Reels continues to be primary driver of engagement – will focus on Reels. Will be more important than Stories.
  - Expect to make changes to FB and IG apps in order to make Reels more central to the experience.
- Want to drive their focus towards Young Adults – they are the future.
  - Competition has gotten more intense – Apple's iMessage is growing in popularity and rise of TikTok (one of the most effective competitors FB has faced).
- Building solutions for commerce – ads that lead directly to advertiser's website or their FB shop.
- Focus on building the next computing platform and the Metaverse
  - Released new version of Quest and AR glasses are off to a great start.
  - Expect that these investments will reduce overall operating margin for 2021 + expect investment to increase over the next years.
- Global supply chain issues and labor shortages have affected overall commerce which in turn affects spend on ads.
- Online commerce has moderated from elevated levels earlier in the pandemic.

# Narrative | General Information

FY2021 | Q3

## OTHER RELEVANT INFORMATION

- The FTC filed an amended antitrust lawsuit against Facebook, accusing the company of abusing its monopoly position in social media by buying up potential rivals and suppressing competition, which could lead to a lengthy legal battle with broad implications.<sup>293</sup>
- Facebook's platforms cause harm to users in ways the company understands, including a link between suicidal thoughts and Instagram, but despite this, the company's stock has only lost 1.5% of its value, as the addictive nature of social media keeps users engaged and Facebook aims to transition into a "metaverse" company, although it has had to delay some growth plans due to a lack of trust.<sup>294</sup>
- Facebook's Oversight Board is reviewing the company's practice of holding high-profile users to separate sets of rules, known as "cross-check" or "XCheck," due to apparent inconsistencies, and lawmakers are seeking a Facebook representative to testify about the company's impact on mental health, while the company states it has invested over \$13 billion in safety and security and faces intense competition, and the Oversight Board plans to release details in October.<sup>295</sup>
- Facebook published annotated versions of some of its research in response to The Wall Street Journal investigation about the negative impacts of its Instagram app on teens' mental health, but copies of the research suggest that even the company believes Instagram has a disproportionate effect on emotional distress in teens compared to other platforms.<sup>296</sup>
- Former Facebook employee Frances Haugen testifies about the negative impact of Facebook on teens' mental health and lack of action from the company, while suggestions to regulate Facebook's algorithms and empower users and parents are proposed as solutions.<sup>297</sup>
- Facebook delays new product rollout amid internal review and reputational damage concerns following media reports and congressional hearings about the negative effects of its platforms, and executives put a hold on some work on new and existing products while conducting reputational reviews, and the company has been tightening the reins on internal information sharing.<sup>298</sup>
- The UK competition regulator fined Facebook £50.5 million for allegedly breaching reporting requirements during its review of Facebook's proposed takeover of Giphy.<sup>299</sup>
- Facebook's oversight board is drafting recommendations for an overhaul of the company's XCheck system, saying that the company had not been forthcoming about how it exempts high-profile users from its rules, following a Wall Street Journal investigation into the practice.<sup>300</sup>
- Prominent Democrats are declining high-paying jobs at Facebook, including overseeing its U.S. lobbying operations, as President Biden and Congress threaten tougher regulations, making it difficult for the company to influence efforts to write tough new rules for internet platforms and take antitrust action.<sup>301</sup>
- Facebook CEO Mark Zuckerberg announced the company's name change to Meta, which reflects its growth opportunities beyond social media and its vision for the metaverse as the successor to the mobile internet, during Facebook's annual developer event, where he also took a swipe at rival Apple for the fees it charges on its App Store.<sup>302</sup>
- Facebook is changing its name to Meta Platforms Inc. to focus on the metaverse, which is an extensive online world that would exist across several technology platforms, with Mark Zuckerberg pushing to establish himself as the champion and grand visionary of the next wave of the internet, while also trying to be less reliant on Apple and Google, but this move comes as the company faces another scandal related to thousands of internal documents.<sup>303</sup>
- The Facebook Files Reference in [Appendix](#).

# Assumptions

FY2021 | Q3

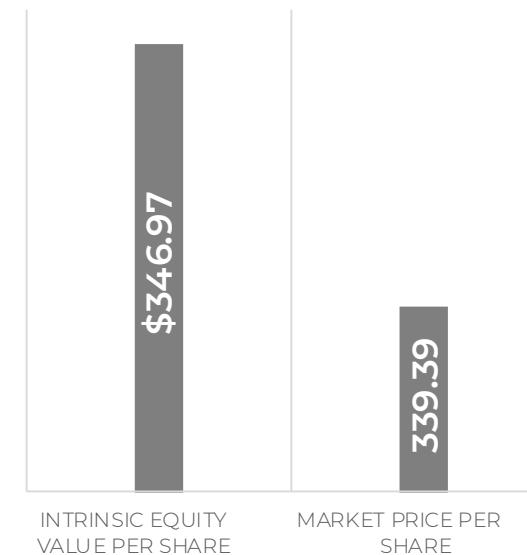
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$112,329	15.00%	1.52%	1.52%	Facebook's revenue growth rate depends on several factors that both drive and offset growth. Ads will remain the primary revenue stream, but the Apple update and competition from iMessage and TikTok may limit growth. Reels presents a strong potential for engagement, and investments in messaging, commerce, and new computing platforms ensure the future. However, Facebook's bad reputation and public issues, along with global supply chain issues and the slowing e-commerce surge, may also impact revenue growth.
OPERATING MARGIN	48.59%	20.00%	35.00%	35.00%	Facebook's operating margin is expected to be negatively impacted by several factors. New ad spaces like Reels don't monetize at the same rate as the news feed, messaging and commerce are still in early stages, and investments in the next computing platform will affect short-term margins. Additionally, Facebook's bad reputation, privacy issues, and the decline of prominent Democrats in high-paying lobbying roles make it hard for the company to advocate for itself, impacting operating margins.
TAX RATE	15.39%	15.39%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.81	RIR =	13.33%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	33.16%	Marginal ROIC =	13.63%	11.41%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		7.69%	6.41%	6.41%	Assuming 20% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2021 | Q3

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$129,178	42.87%	\$55,383	\$46,860	\$20,892	\$25,968
2	\$148,555	37.15%	\$55,196	\$46,701	\$24,026	\$22,675
3	\$170,838	31.44%	\$53,706	\$45,441	\$27,630	\$17,811
4	\$196,464	25.72%	\$50,527	\$42,751	\$31,774	\$10,977
5	\$225,934	20.00%	\$45,187	\$38,233	\$36,540	\$1,692
6	\$253,733	35.00%	\$88,806	\$73,077	\$34,469	\$38,609
7	\$278,111	35.00%	\$97,339	\$77,838	\$30,228	\$47,610
8	\$297,334	35.00%	\$104,067	\$80,802	\$23,835	\$56,967
9	\$309,870	35.00%	\$108,454	\$81,690	\$15,543	\$66,147
10	\$314,580	35.00%	\$110,103	\$80,375	\$5,840	\$74,535
Terminal year	\$319,362	35.00%	\$111,777	\$81,597	\$10,874	\$70,722

The Value		
Terminal value		1,447,647
PV(Terminal value)		715,520
PV (CF over next 10 years)		224,219
Value of operating assets	\$	939,739
- Tax due on trapped cash brought back		(303)
+ Cash & Marketable Securities		58,075
Value of firm	\$	997,511
- Debt value of lease		(12,935)
- Total Interest Bearing Debt		(12,640)
- Preferred Stock		-
Market Value of Equity	\$	965,178
- Options outstanding		-
Value of Equity in Common Stock	\$	965,178
Number of shares (primary)		2,782
Intrinsic Equity Value per share	\$	346.97



**97.82%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2021**

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# **Q2 Results**

April – June 2021

# Narrative | Segment Drivers

FY2021 | Q2

## Advertising (+56%)

+47% increase in the average price per ad

↑ Recovery from declines in demand due to COVID.

↑ Shift to commerce from offline to online.

+6% increase in the number of ads delivered

↑ Increase in user.

↑ Increase in # and frequency of ads displayed.

## Payments and Other Fees (+36%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

Consumer sales of hardware products.

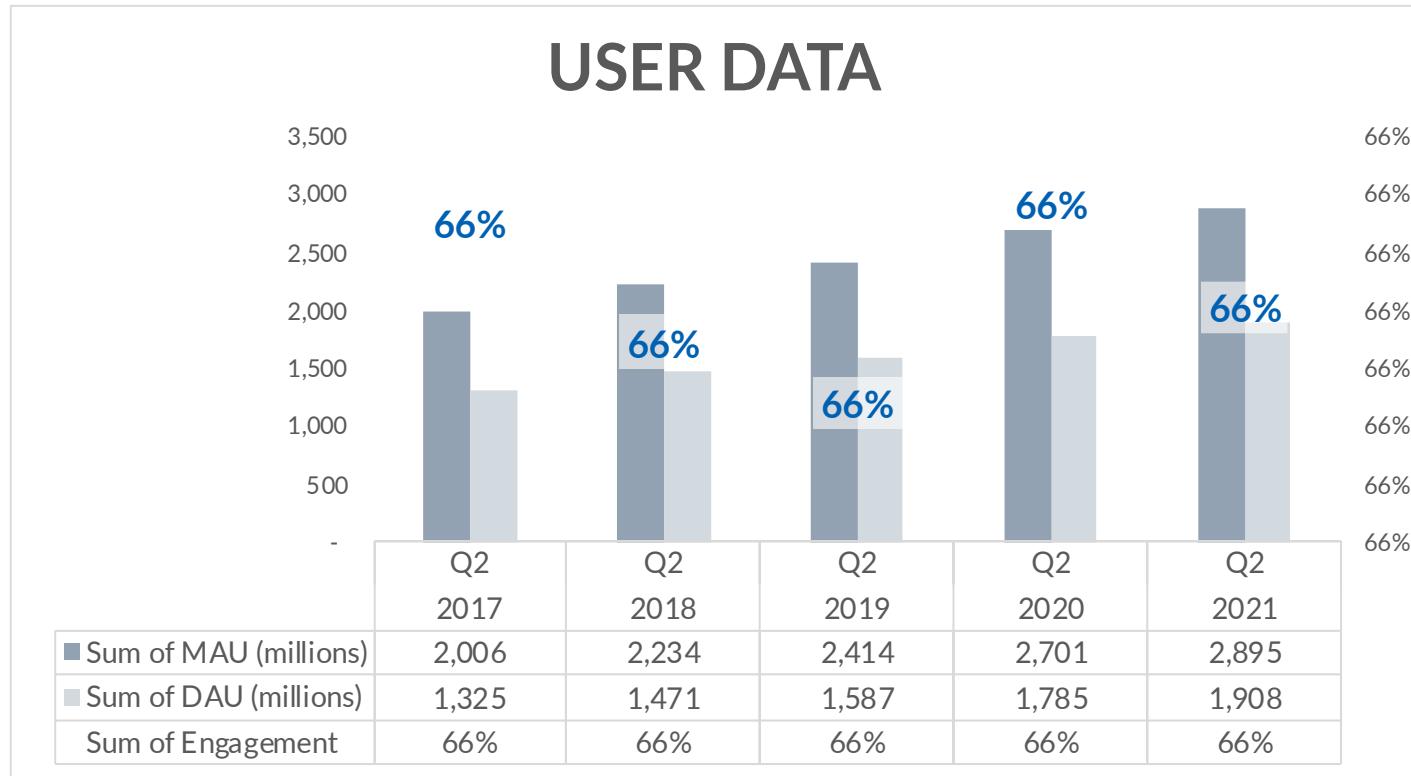
↑ Delivery of VR headsets and related platform sales.

↑ Factors driving growth.

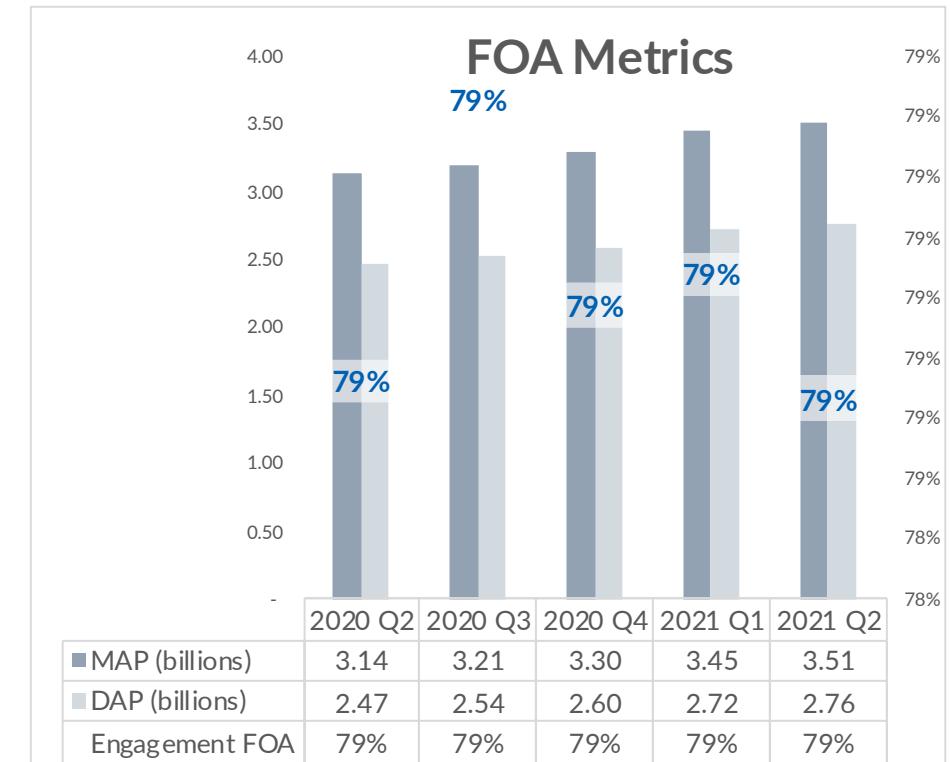
↓ Factors that offset growth.

# Narrative | User Data

FY2021 | Q2



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2021 | Q2

## COMPANY OUTLOOK

- Continue with stock purchasing plan to mitigate employee stock-based compensation.
- Video is the primary way that people use FB products and express themselves – represents half the time spent on FB.
  - Reels is the largest contributor to engagement growth in IG – of all forms of video, short-form is growing especially quickly.
    - Only just began making ads available in Reels – big opportunity to increase ad inventory.
- People like to watch video recommended by personalized algorithms – gives creators reach to new people who don't follow them + good compliment to social feed.
- On-demand video on FB Watch is also growing quickly – FB is building monetization tool for creators.
- Focused on developing monetization tools for live.
- Click-to-Messenger ads are still growing quickly.
- Focused on building out shops, Marketplace, business messaging in WhatsApp + Messenger.
  - WhatsApp Payment available in all Brazil + India.
  - Making FB Pay available outside of the app.
- FB wants to help build the metaverse – believe the metaverse will be the successor to mobile internet.
- Testing new experience in the News Feed where you can tap to browse content as they work to build a discovery platform.
- Want to create seamless customer journey where it's easier to discover products, buy it, pay for it and have it delivered without exiting the app.
- Are building tools that help business beyond marketing – customer relationship management, business messaging tools or hiring tools through FB jobs.
- Are starting to see growth trends with verticals that were particularly challenged during the pandemic (travel, entertainment, media).

# Narrative | General Information

FY2021 | Q2

## OTHER RELEVANT INFORMATION

- Facebook's Oversight Board, comprised of independent experts, is responsible for interpreting the company's complex content rules, with their most anticipated decision being whether Facebook properly applied its rules when they banned former President Donald Trump from the platform, while Facebook's heavy reliance on automation for content moderation has led to frustration for many users.<sup>279</sup>
- Facebook is preparing advertisers for the upcoming ruling by its oversight board on whether to reinstate former President Donald Trump's accounts and has promised advertisers more tools and transparency after last year's boycott.<sup>280</sup>
- Facebook's independent oversight board ruled that the platform was justified in suspending former President Donald Trump earlier this year, but it must better explain its reasoning if it decides to permanently ban him, and it gave Facebook six months to determine whether he should be permanently banned.<sup>281</sup>
- Attorneys general from 44 states and territories have urged Facebook to abandon plans to launch a children's version of Instagram, citing behavioral and privacy concerns about the effects of social media on young people.<sup>282</sup>
- Facebook lost a bid to block an EU privacy decision that could interrupt its ability to send information about European users to U.S. computer servers, potentially leading to widespread disruption of trans-Atlantic data flows, as other large tech companies could face similar restrictions.<sup>283</sup>
- Facebook and Instagram will allow users to hide "like" counts on their posts as a matter of personal choice, despite pilot tests showing no meaningful impact on platform usage or users' self-esteem.<sup>284</sup>
- The European Commission is expected to open formal antitrust proceedings against Facebook in the coming weeks over allegations that the company favors its own Marketplace service over competitors.<sup>285</sup>
- Facebook's head of global advertising sales is leaving the company, and some worry about the impact on Facebook's advertiser relationships as recent iOS changes could threaten its loyalty among small businesses, while Facebook expects ad revenue growth to be driven by price for the remainder of the year.<sup>286</sup>
- Facebook's oversight board has gained credibility for its independence in ruling against the social media giant, but its longer-term impact will depend on how Facebook implements the recommendations and guidance issued by the board as part of its decisions.<sup>287</sup>
- A judge dismissed the Federal Trade Commission lawsuit against Facebook, stating that the regulator didn't show enough proof that Facebook was a monopoly, while lawmakers in Washington are still considering the path forward after a recent battle to advance bills aimed at strengthening tech antitrust enforcement.<sup>288</sup>
- Facebook has requested the recusal of Federal Trade Commission Chair Lina Khan from deliberations on a new antitrust case against the company, citing her long history of criticizing Facebook and other big-tech firms.<sup>289</sup>
- Facebook plans to pay over \$1 billion to content creators on its platforms through 2022, and will also provide seed funding to help cover content-production costs in a move to reflect the increasing value the company sees in user-generated content.<sup>290</sup>
- President Biden's administration has publicly criticized Facebook for its handling of vaccine misinformation, leading to escalating tensions between the White House and the social media giant, which has rejected the criticisms.<sup>291</sup>
- Facebook's stock fell 4% in after-hours trading despite strong second-quarter numbers, as investors anticipate a deceleration in ad revenue growth due to Apple's privacy changes, and Facebook's focus on developing secondary businesses such as e-commerce and virtual reality.<sup>292</sup>

# Assumptions

FY2021 | Q2

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$104,789	15.00%	1.45%	1.45%	Facebook's future revenue growth rate will be driven by ads, particularly in Reels, and by developing monetization tools for videos and creators. Verticals like travel, media, and entertainment (heavily impacted by the pandemic) are also starting to grow. The company is investing in commerce, messaging, and the meta verse, but faces challenges from privacy and security concerns, regulation, the new iOS limitations on tracking user information, and frustration from users over content moderation automation.
OPERATING MARGIN	49.32%	20.00%	35.00%	35.00%	Facebook's future operating margin may be negatively impacted by changes in the regulatory environment and third-party operating systems, which require further investments in privacy, security, transparency, and measurement, as well as adaptations by businesses and developers. In addition, Facebook may need to increase marketing and sales costs to combat reputational damage, which could further impact its operating margin.
TAX RATE	13.82%	13.82%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.78	RIR =	12.81%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	33.23%	Marginal ROIC =	12.59%	11.32%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		7.27%	6.32%	6.32%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

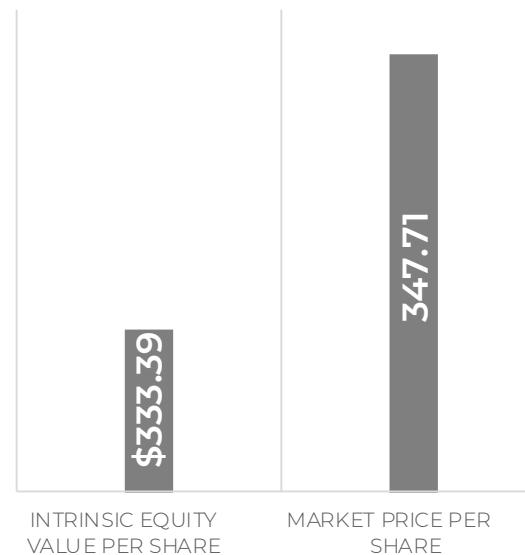
## FY2021 | Q2

The Cash Flows

	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$120,507	43.46%	\$52,369	\$45,132	\$20,108	\$25,024
2	\$138,583	37.59%	\$52,097	\$44,898	\$23,124	\$21,774
3	\$159,371	31.73%	\$50,566	\$43,578	\$26,593	\$16,985
4	\$183,277	25.86%	\$47,403	\$40,852	\$30,581	\$10,271
5	\$210,768	20.00%	\$42,154	\$36,328	\$35,169	\$1,160
6	\$236,672	35.00%	\$82,835	\$69,204	\$33,137	\$36,067
7	\$259,345	35.00%	\$90,771	\$73,441	\$29,005	\$44,436
8	\$277,162	35.00%	\$97,007	\$75,929	\$22,792	\$53,137
9	\$288,692	35.00%	\$101,042	\$76,424	\$14,750	\$61,675
10	\$292,878	35.00%	\$102,507	\$74,830	\$5,355	\$69,475
Terminal year	\$297,124	35.00%	\$103,994	\$75,915	\$9,723	\$66,193

The Value

Terminal value	1,358,732
PV(Terminal value)	691,688
PV (CF over next 10 years)	215,014
Value of operating assets	\$ 906,702
- Tax due on trapped cash brought back	(260)
+ Cash & Marketable Securities	64,080
Value of firm	\$ 970,522
- Debt value of lease	(12,138)
- Total Interest Bearing Debt	(12,007)
- Preferred Stock	-
Market Value of Equity	\$ 939,985
- Options outstanding	-
Value of Equity in Common Stock	\$ 939,985
Number of shares (primary)	2,819
Intrinsic Equity Value per share	\$ 333.39



104.29%  
PRICE AS % OF VALUE



FISCAL YEAR  
**2021**

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# **Q1 Results**

January – March 2021

# Narrative | Segment Drivers

FY2021 | Q1

## Advertising (+46%)

+30% increase in the average price per ad

↑ Recovery from declines in demand due to COVID.

↑ Increasing consumer demand for purchasing products relative to services.

↑ Shift to commerce from offline to online.

↑ Increase in user.

↑ Increase in # and frequency of ads displayed.

## Payments and Other Fees (+146%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

Consumer sales of hardware products.

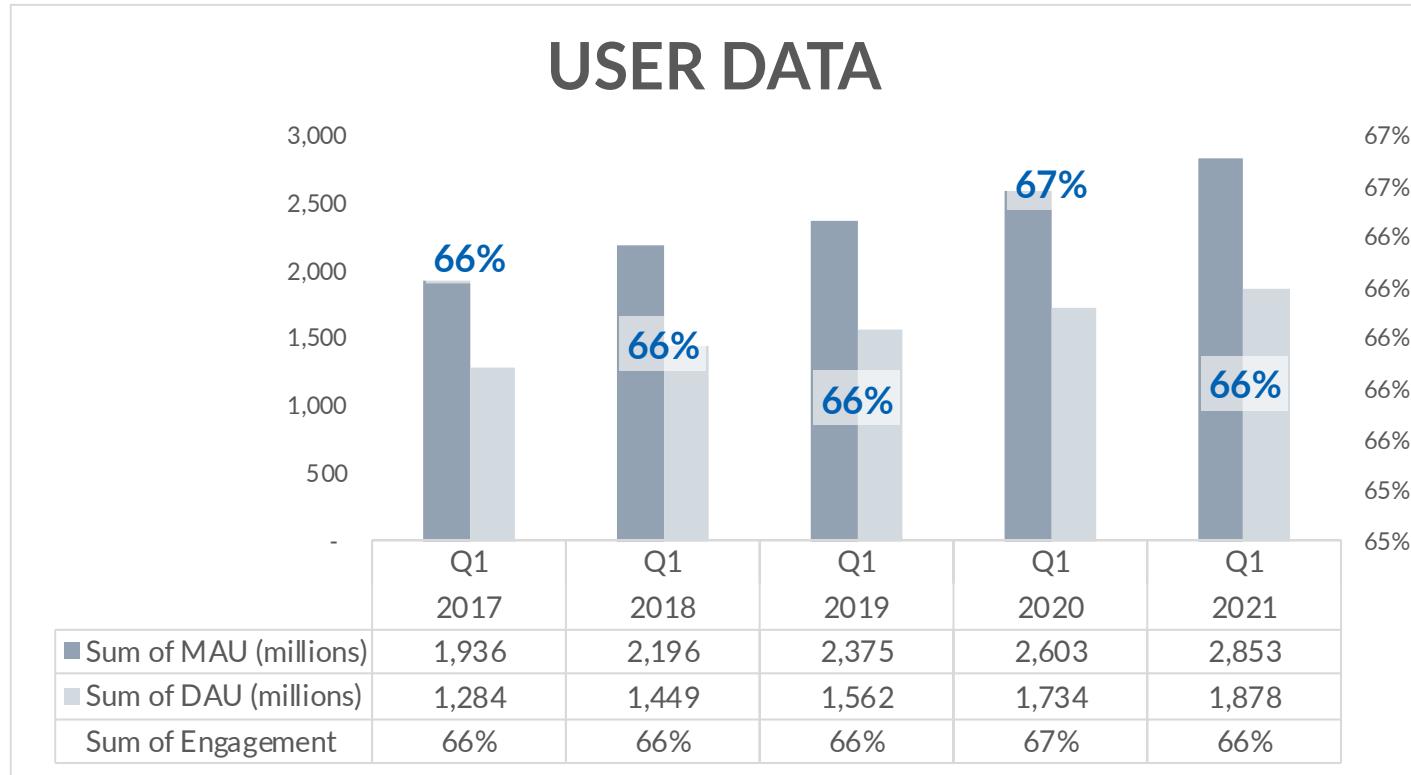
↑ Delivery of VR headsets and related platform sales.

↑ Factors driving growth.

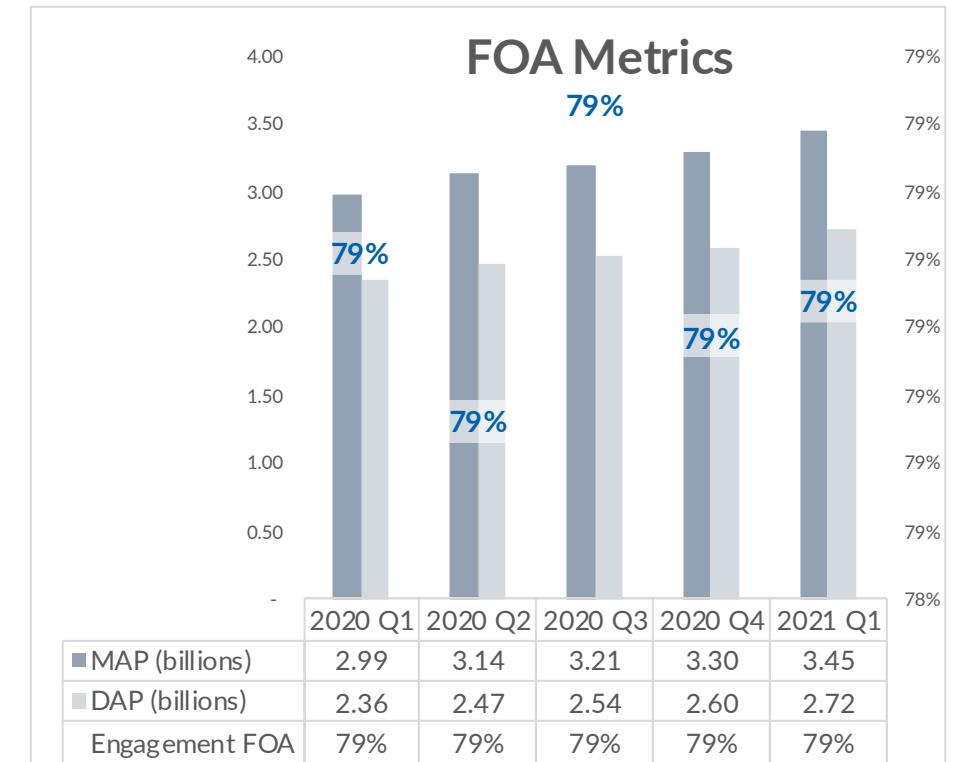
↓ Factors that offset growth.

# Narrative | User Data

FY2021 | Q1



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2021 | Q1

## COMPANY OUTLOOK

- Anticipate further advertisement growth in the near future will be determined by price as FB continues to see rise in ad demand as effects of COVID subside.
- Ad targeting and measurement tools could be limited by changes in the regulatory environment + 3<sup>rd</sup> party mobile operating systems and browser.
- Will continue to invest heavily in building next computing platform. Quest 2 is doing better than expected, even after holiday season.
  - Are seeing trends in app ecosystem broaden out beyond games into other categories in VR, including social, productivity and fitness.
  - Introduced App Lab so developers can ship early versions on their apps directly to consumers without having to go through Oculus Store.
- Commerce and messaging are becoming more important as the pandemic has accelerated shift towards online.
  - Commerce ads are performing well + more people using Marketplace and WhatsApp catalog.
  - WhatsApp Payment went live in India + have gotten approval in Brazil to launch shortly.
  - Total daily conversations have grown in WhatsApp + Messenger +40%.
- Building tools to support creator economy.
- Performance driven in large part by continued digital transformation as more businesses shift online.
- Strong growth in ads through FB Watch (+1.25M people visiting every month).
- Working with customers to implement Apple's API and own aggregated events measurements API to mitigate impact of iOS14 changes.
- Expect increased targeting headwind and platform changes, notably recently launched iOS14.5
- Continued uncertainty around viability of transatlantic data transfer due to European regulatory development.

# Narrative | General Information

FY2021 | Q1

## OTHER RELEVANT INFORMATION

- Facebook plans to introduce an in-app prompt to educate users about their data handling, as it battles Apple's new privacy policy changes, which would require user consent to track their behavior, leading to lower ad performance, while Facebook faces antitrust lawsuits.<sup>[265](#)</sup>
- Facebook plans to reduce the visibility of political content on its platform, which currently constitutes only 6% of what people see, following internal research that found active political Facebook groups to be incubating a toxic brew of hate speech, conspiracy theories and calls to violence.<sup>[266](#)</sup>
- Facebook and Apple's leaders, Mark Zuckerberg and Tim Cook, have been exchanging jabs about privacy, app-tracking tools, and their dueling visions of the future of the internet; at stake is how the internet will evolve and which companies will dominate it, as Facebook and Apple's visions are diverging and increasingly incompatible.<sup>[267](#)</sup>
- Facebook has removed news from its platform in Australia due to a disagreement with the government over payment for content, which has led to unintended consequences for users, while Google has agreed to pay News Corp for journalism; the situation may lead to different rules for tech giants in different countries or regions.<sup>[268](#)</sup>
- Lawmakers from the UK and Canada criticized Facebook's ban on Australian news sharing, which was in response to legislation that would compel tech companies to pay traditional media for content, with concerns growing around the world about Facebook's market power and potential scrutiny, while negotiations between Facebook and the Australian government continue.<sup>[269](#)</sup>
- Facebook pledges to spend \$1 billion to license news from publishers over the next three years, amid increased scrutiny from governments worldwide over paying for news content on their platforms.<sup>[270](#)</sup>
- The Irish Data Protection Commission expects to make draft decisions on half a dozen privacy cases involving big tech companies this year, including two cases involving Facebook, while rejecting complaints about slow enforcement and emphasizing the complexity of the cases.<sup>[271](#)</sup>
- Facebook launches an ad campaign promoting the value of targeted ads to businesses and consumers in digital media, radio, and TV programming amid Apple's upcoming policy that requires users to opt-in to being tracked for personalized ads, which Facebook claims will make it harder for small businesses to reach their customers.<sup>[272](#)</sup>
- EU politicians want tech giants to pay more for news, following Australia's battle with Facebook. The EU Copyright Directive would give news publishers the right to demand payment for their content. Google has signed licensing deals with over 500 publishers. Some legal analysts believe Australia's competition law is stronger, while others say the Copyright Directive is outdated.<sup>[273](#)</sup>
- Facebook has introduced new penalties for Groups violating its community standards and will stop recommending political and health-related groups to countries outside the U.S., after its own researchers found the company's oversight of Groups was weak and the product played a role in promoting election-related conspiracy theories leading up to the Capitol riot.<sup>[274](#)</sup>
- Facebook is exploring the development of an Instagram-like app for children under 13 to create a safe environment and lure them off the original Instagram platform, but despite being policy-driven and managed by parents, it could still improve Facebook's ad-targeting ability.<sup>[275](#)</sup>
- Facebook introduces new toggle bar for newsfeeds, allowing users to switch between algorithmic and reverse chronological order, and is considering customizing feed topics, while also planning to provide more transparency about problematic content, amid the emergence of a move to put content and data control back in users' hands, despite concerns about iOS 14.5's new controls for advertising tracking.<sup>[276](#)</sup>
- Data from a 2019 Facebook hack was made public, exposing personal information of over 500 million users, and regulators in Europe have asked for more details, while Facebook has not commented on notifying users.<sup>[277](#)</sup>
- Facebook's independent oversight board will now hear users' appeals on content removals, allowing users to appeal content moderators' decisions to keep flagged content, and board decisions will be binding, as the company seeks to expand the authority of the panel.<sup>[278](#)</sup>
- Facebook's strong Q1 revenue beat estimates, with ad-revenue growth expected to be driven by price, but engagement has declined, with fewer daily active users and shorter visit duration, which may be exacerbated by Apple's iOS update that prompts users to allow apps to track their online browsing habits.<sup>[279](#)</sup>

# Assumptions

FY2021 | Q1

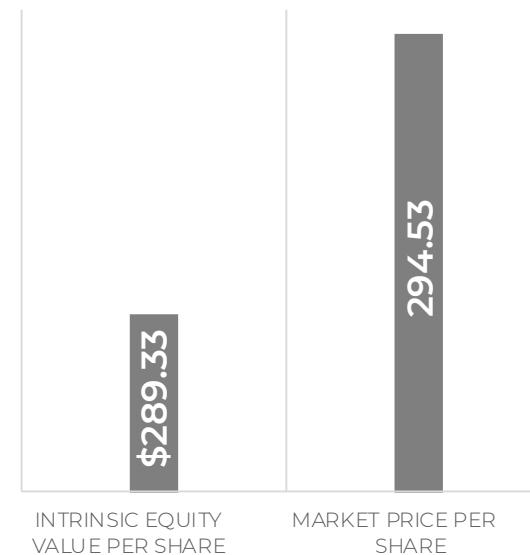
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$94,399	15.00%	1.74%	1.74%	Facebook's revenue growth is expected to be driven by increasing demand in ads as the impact of COVID-19 subsides. Further growth is expected to come from messaging and commerce including Facebook's venture into payment services in big markets like India and Brazil. Ads in Facebook Watch has also been gaining traction. Growth will be offset by changes in the regulatory environment and limitations to ad targeting and measurement tools, which could be compounded by third-party mobile operating systems and browsers. Furthermore, engagement has declined due to fewer daily active users and shorter visit durations following.
OPERATING MARGIN	47.99%	20.00%	35.00%	35.00%	Facebook's future operating margin may be negatively impacted by changes in the regulatory environment and third-party operating systems, which require further investments in privacy, security, transparency, and measurement, as well as adaptations by businesses and developers. In addition, Facebook may need to increase marketing and sales costs to combat reputational damage, which could further impact its operating margin.
TAX RATE	13.09%	13.09%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.77	RIR =	14.99%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	32.11%	Marginal ROIC =	12.83%	11.61%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		7.60%	6.61%	6.61%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2021 | Q1

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$108,559	42.39%	\$46,021	\$39,998	\$18,395	\$21,603
2	\$124,843	36.79%	\$45,936	\$39,924	\$21,155	\$18,769
3	\$143,569	31.20%	\$44,789	\$38,927	\$24,328	\$14,599
4	\$165,104	25.60%	\$42,264	\$36,732	\$27,977	\$8,755
5	\$189,870	20.00%	\$37,974	\$33,004	\$32,174	\$830
6	\$213,315	35.00%	\$74,660	\$62,811	\$30,458	\$32,353
7	\$233,998	35.00%	\$81,899	\$66,623	\$26,870	\$39,753
8	\$250,481	35.00%	\$87,668	\$68,877	\$21,413	\$47,463
9	\$261,482	35.00%	\$91,519	\$69,355	\$14,292	\$55,063
10	\$266,032	35.00%	\$93,111	\$67,971	\$5,911	\$62,060
Terminal year	\$270,661	35.00%	\$94,731	\$69,154	\$10,364	\$58,790

The Value		
Terminal value		1,207,206
PV(Terminal value)		596,553
PV (CF over next 10 years)		186,316
Value of operating assets	\$	<b>782,869</b>
- Tax due on trapped cash brought back		(248)
+ Cash & Marketable Securities		64,219
Value of firm	\$	<b>846,840</b>
- Debt value of lease		(8,487)
- Total Interest Bearing Debt		(11,614)
- Preferred Stock		-
Market Value of Equity	\$	<b>820,398</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>820,398</b>
Number of shares (primary)		2,835
Intrinsic Equity Value per share	\$	<b>289.33</b>



**101.80%**

PRICE AS % OF VALUE

VALUATION YEAR

# FY2020

January – December 2020



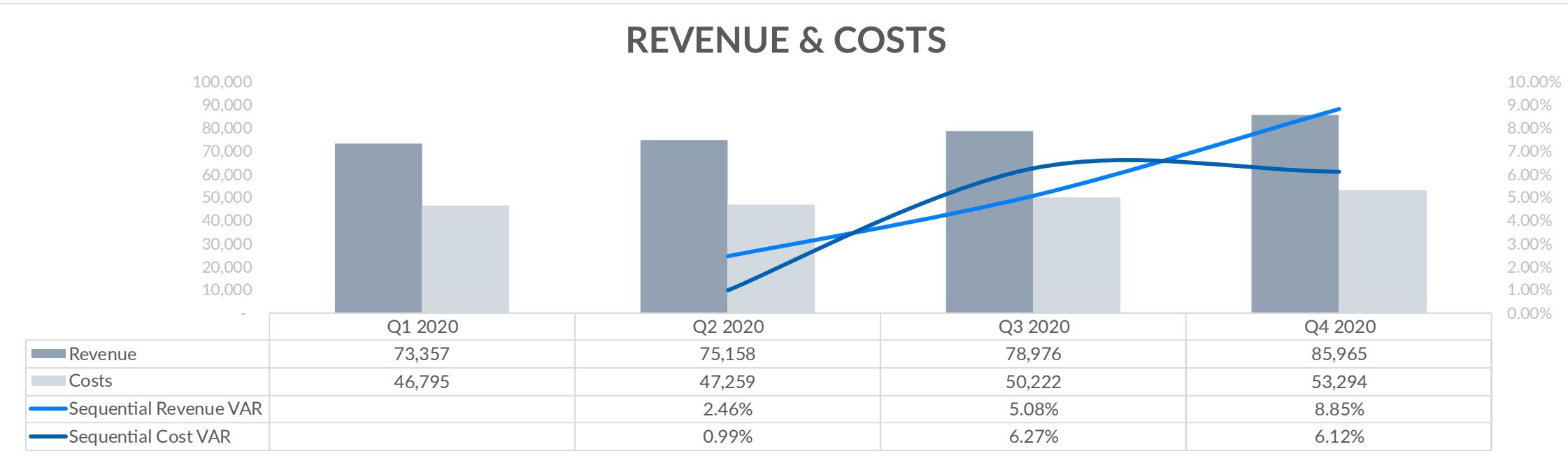


# General Narrative

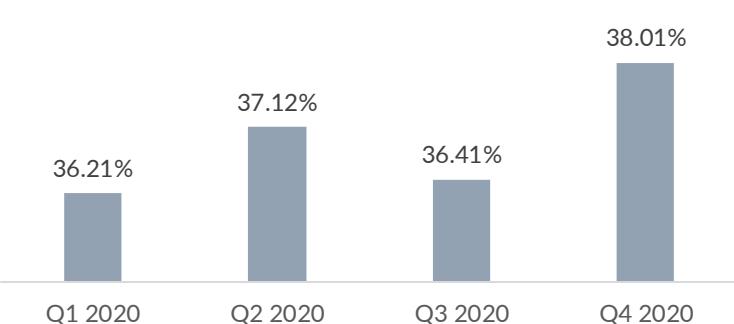
- ∞ Covid-19 disrupted daily life, causing advertisers to cut spending on Facebook. Yet, the platform saw a surge in private messaging, voice/video calls, and e-commerce. Facebook tackled misinformation while investing in the future, as other companies reduced expenses.
- ∞ Facebook faces scandal and government probes. An advocacy group led a July advertiser boycott, pushing for prioritized privacy and data protection. Costs have risen for investment in privacy, security, and transparency, along with lobbying. Apple's iOS limits data collection, hindering ad targeting, while measurement issues erode advertiser trust and growth. To stay competitive with TikTok, Facebook must address negative public perception.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5-year CAGR was 32.80% as FB has grown into the social media behemoth it is today. As the years have progressed and it has reached saturation in mature markets, sequential growth has decreased YoY and is expected to continue to do so in the future. FB is still expected to have double digit growth as it remains a big player in advertising and develops new products to increase ad inventory as well as alternative revenue streams. With Covid-19 pandemic, consumers have shifted only which makes the use of platforms like FB more critical as people spend more time online.

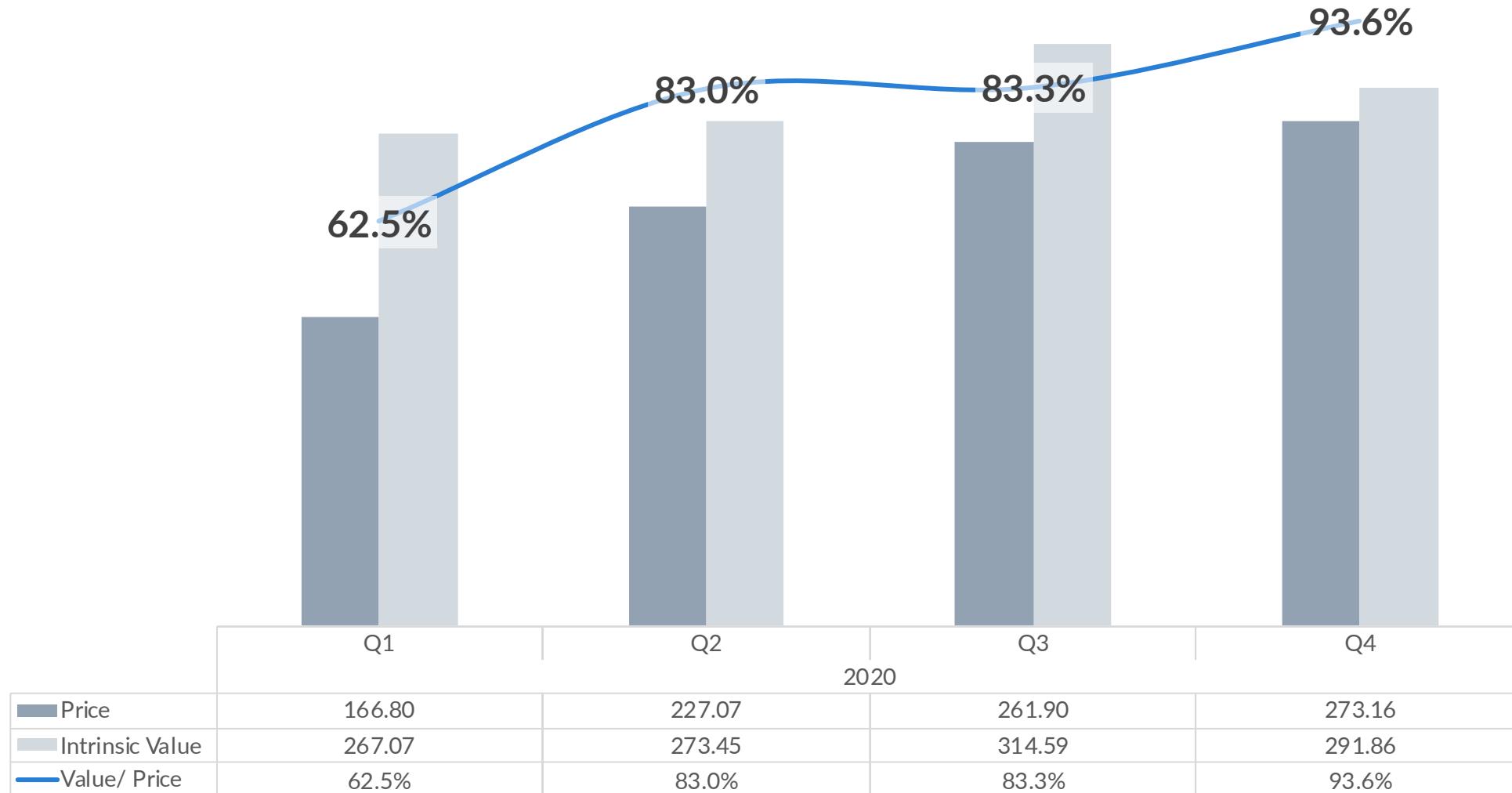
Costs 5-year CAGR was 36.81% as FB has needed to heavily invest in order to continue growing as well as additional investments in safety, security and privacy that increased significantly their YoY cost growth. This behavior is expected to continue in the near future as the company invests in both growth and privacy which will in turn affect margins.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Partnership with Jio Platforms in India (FB's biggest market outside US) in an initiative to connect millions of small businesses through WhatsApp.
- ∞ Launch of Messenger Rooms, group video chat for up to 50 people.
- ∞ AI advances helping to police the platform detecting 90% of hate speech.
- ∞ FB acquiring Giphy to integrate GIF library to Instagram.
- ∞ FB is boycotted by many advertisers including Coca-Cola, Unilever, and Disney due to concerns over handling of hate speech and misinformation.
- ∞ Met with civil rights group that organized boycott to discuss current company controls, but group left the meeting feeling no progress had been made.
- ∞ Launched Reels in +50 countries as a response to rival TikTok.
- ∞ Launched Quest 2 VR headset and are working on AR glasses with Ray-Ban.
- ∞ Agreed along with Twitter and YouTube to a common set definition of hate speech and other harmful content in partnership with the World Federation of Advertisers and the Global Alliance of Responsible Media.

# Intrinsic Value vs Price





FISCAL YEAR  
**2020**

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# **Q4 Results**

October – December 2020

# Narrative | Segment Drivers

FY2020 | Q4

Advertising  
(+21%)

-10% increase in the average price per ad

↓ Decrease in advertising demand in first two quarters due to COVID-19

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

34% increase in the number of ads delivered

↑ Increase in user and in engagement

↑ Increase in # and frequency of ads displayed

Payments  
and Other  
Fees  
(+72%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

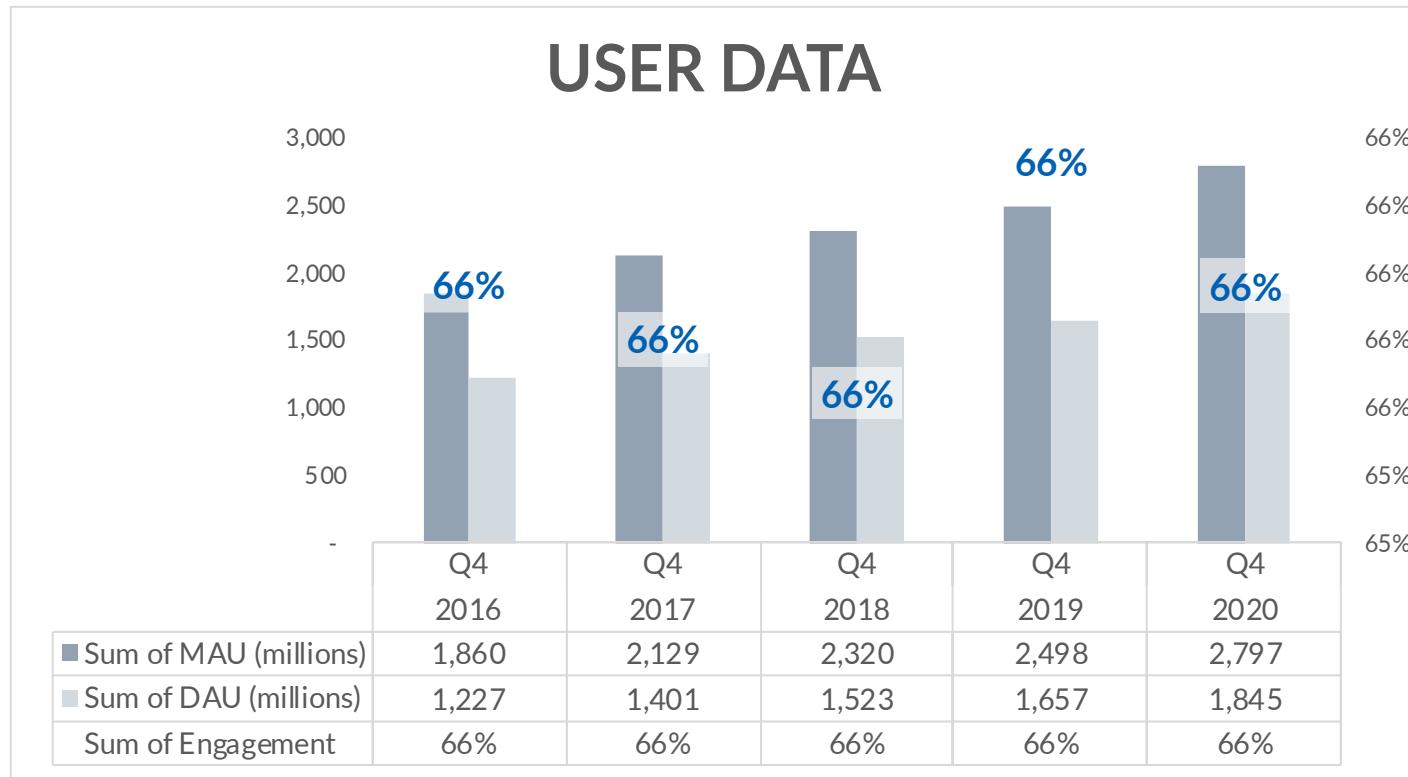
↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.

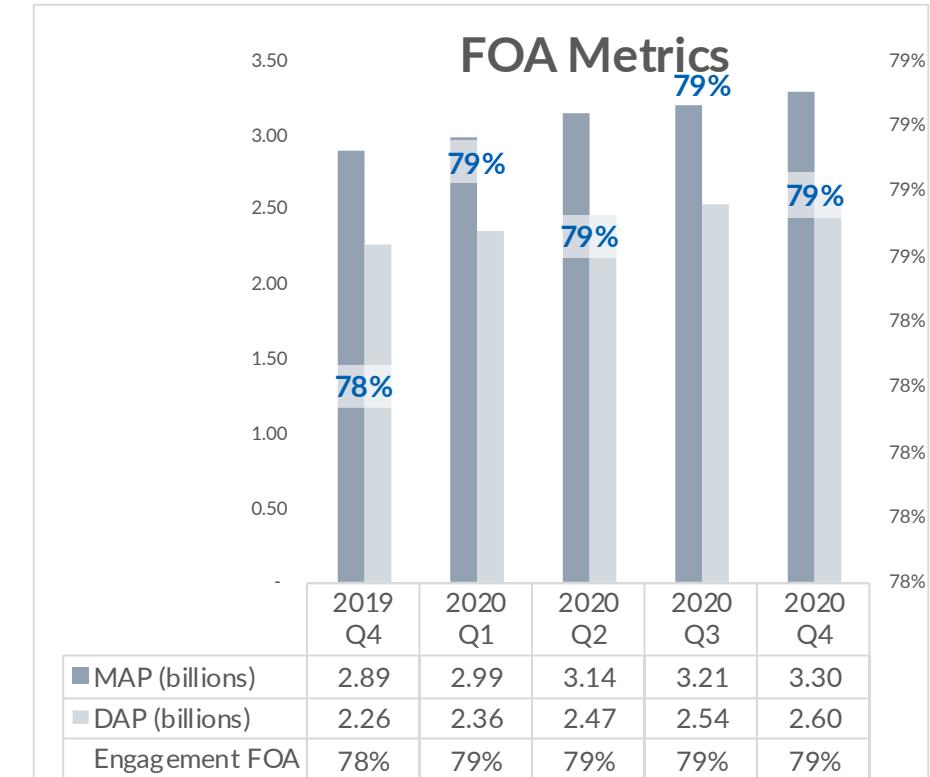
↓ Factors that offset growth.

# Narrative | User Data

FY2020 | Q4



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2020 | Q4

## COMPANY OUTLOOK

- Focus on 4 themes for the year ahead: Communities, Private Messaging, Commerce tools for small business & Building the next Computing Platform.
- On the Community front: are building tools to help groups get things done together and provide support for people + removing groups that break rules against hate speech and violence.
- Want to make private messaging interoperable between apps and believe that all messages should be end-to-end encrypted. FB should maintain some of the metadata in order to prevent bad actors from using its platforms.
- Commerce: Make it easier for businesses to set shops – will have to set a shop once and will automatically be available in both IG + FB, eventually also in WhatsApp + Messenger. Expanded Checkout to all US businesses.
  - WhatsApp is an important part of their strategy as they introduce new features for businesses to transact in the app.
- Next computing platform: Launched Quest 2 in October + excited to deliver first glimpse of AR glasses when they launch first pair with Ray-Ban. Portal used to keep people connected + will expand its role and VR presence in the workplace.
- Commitment to storing data in countries where they are sure they can keep it secure.
- See Apple as one of their biggest competitors:
  - Apple released a “Nutrition Label” focused on the metadata that apps collect rather than focus on the privacy and security of other people’s messages. iMessage stores “non-end-to-end encrypted” backups of your messages by default.
  - Apple has the incentive to interfere with how FB apps and other apps work, which they regularly do in preference of their own.
- Have seen robust performance across all regions including a longer Holiday period.
- Usage starting to normalize from peak COVID levels. Still benefiting from online commerce.
- Headwinds for 2021 include platform changes due to iOS14, evolving regulatory landscape + continued global uncertainty.
- Launched Reels in +50 countries – currently following the same strategy of launching the product and making sure it’s a market fit before monetizing it.

# Narrative | General Information

FY2020 | Q4

## OTHER RELEVANT INFORMATION

- Political groups are circumventing Facebook's system for blocking false political advertising by reposting ads that violate its policies, exposing a loophole in the company's efforts to combat misinformation.[249](#)
- Facebook announced temporary measures to limit the spread of false and possibly dangerous content, including restricting live video and reducing the visibility of potential misinformation, after taking down the rapidly-growing "Stop the Steal" group that was organizing protests around the US, leading many Republicans to accuse the company of censoring conservative speech.[250](#)
- Facebook's oversaturation of ads on its legacy app and Instagram, which make up the majority of its revenue, could lead to a flight of users and poses a risk for the company, which is unable to acquire anything meaningful for now due to regulatory threats.[251](#)
- Facebook is offering ad credits to some advertisers after discovering a glitch in its "conversion lift" tool that overestimated campaign results for 12 months.[252](#)
- Facebook is acquiring customer-service startup Kustomer for over \$1 billion to help companies use its platforms to do business.[253](#)
- Facebook is facing antitrust lawsuits from the Federal Trade Commission and a group of attorneys general over allegations that it acquired companies that posed competitive threats to its monopoly, with the focus on its past deals including Instagram and WhatsApp, while the social media giant denies the allegations and points out that the FTC approved the acquisitions previously.[254](#)
- Breaking up Facebook would be complex and expensive, but not impossible, according to experts, with the process requiring years of engineering work and legal wrangling, and resulting in diminished products, weaker security for user data, and billions of dollars in redundant spending, though legal experts said forcibly separating Facebook, Instagram, and WhatsApp isn't the only potential outcome if the antitrust cases succeed.[255](#)
- Facebook is supporting Epic Games' challenge against Apple's App Store monopoly and has pledged to provide materials and documents.[256](#)
- Facebook and Google agreed to assist each other in the event of an antitrust investigation into their pact to work together in online advertising, according to an unredacted version of a lawsuit filed by 10 states against Google last week, which alleges that Facebook agreed not to compete with Google's online advertising tools in return for special treatment.[257](#)
- State attorneys general allege that Google's 2018 business agreement with Facebook was an illegal price-fixing deal, as Google gave Facebook special terms and access to its ad server, and also provided Facebook with information about bot-generated ad opportunities.[258](#)
- Facebook experienced a surge in reports of violent content and false news following the Capitol Hill riot, resulting in the social media giant taking various measures including a 24-hour ban on former President Donald Trump and an extension of the ban through at least the inauguration, as the company's senior executives responded to the shifting political winds.[259](#)
- Facebook and Amazon were the top spenders on federal lobbying in the US in 2020, with Facebook spending nearly \$20 million, up 18% from the previous year, while Apple's lobbying spending decreased to \$6.7 million; companies use a variety of tactics including funding groups that support their agenda, hiring former government officials, and buying ads.[260](#)
- Facebook's content-oversight board overturned four instances where the company unfairly infringed upon users' speech, including removing a post about breast cancer identification and a post praising hydroxychloroquine, and urged Facebook to create new rules around health-related misinformation and increase transparency around such decisions.[261](#)
- Facebook plans to test new controls that will let advertisers exclude certain topics from their ads, allowing them to determine where and how their ads show up on the platform, including the news feed, a move that comes after civil-rights groups called for a boycott of Facebook over its handling of hate speech and misinformation.[262](#)
- Facebook's core business is expected to be damaged when Apple implements new privacy changes that make it harder for Facebook to gather user data and prove the effectiveness of its ads on its flagship app and Instagram, as mobile apps will be required to seek users' permission before tracking their activity.[263](#)
- Facebook redesigned its flagship product to focus on Groups, but after research found they fueled partisanship and even calls for violence, Facebook has implemented new rules, disabled certain tools, and dissolved some top groups in response to issues like misinformation, hate speech, and threats to democracy.[264](#)

# Assumptions

FY2020 | Q4

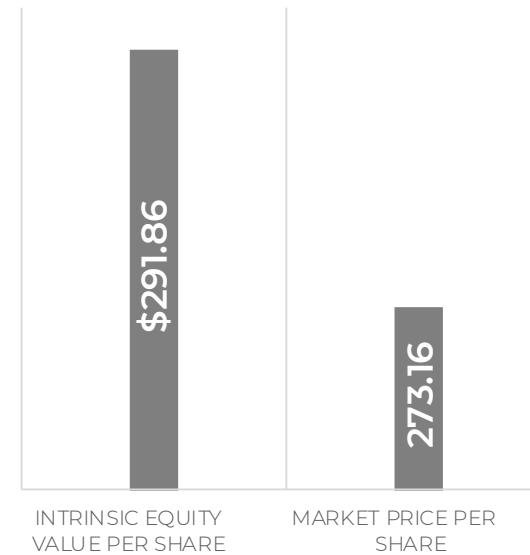
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$85,965	15.00%	0.93%	0.93%	Facebook's revenue growth rate will be driven by e-commerce adoption, new business tools, and new technology such as Quest 2 and AR glasses. Reels is also expected to bring engagement and potential ad space. However, growth will be offset by factors such as Apple's iOS limiting data collection, scandals impacting reputation, and oversaturation of ads.
OPERATING MARGIN	46.00%	20.00%	35.00%	35.00%	Facebook's operating margin has been negatively impacted by several factors, including increased use of its platform at a time when advertisers are spending less. Additionally, Facebook has had to continue investing in privacy and security measures to address user concerns. The company is also investing in AI to improve its products and enhance safety on the platform, which is further impacting its operating margin.
TAX RATE	12.16%	12.16%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.75	RIR =	8.62%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	30.18%	Marginal ROIC =	12.75%	10.79%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		6.66%	5.79%	5.79%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2020 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$98,860	40.80%	\$40,339	\$35,434	\$17,268	\$18,166
2	\$113,689	35.60%	\$40,476	\$35,555	\$19,858	\$15,697
3	\$130,742	30.40%	\$39,748	\$34,916	\$22,837	\$12,078
4	\$150,353	25.20%	\$37,890	\$33,284	\$26,263	\$7,021
5	\$172,906	20.00%	\$34,581	\$30,377	\$30,202	\$175
6	\$193,977	35.00%	\$67,892	\$57,622	\$28,217	\$29,406
7	\$212,156	35.00%	\$74,255	\$60,818	\$24,345	\$36,473
8	\$226,069	35.00%	\$79,124	\$62,458	\$18,632	\$43,826
9	\$234,533	35.00%	\$82,087	\$62,360	\$11,335	\$51,025
10	\$236,715	35.00%	\$82,850	\$60,481	\$2,921	\$57,560
Terminal year	\$238,916	35.00%	\$83,621	\$61,043	\$5,261	\$55,782

The Value		
Terminal value		1,147,790
PV(Terminal value)		617,380
PV (CF over next 10 years)		176,106
Value of operating assets	\$	<b>793,486</b>
- Tax due on trapped cash brought back		(230)
+ Cash & Marketable Securities		61,954
Value of firm	\$	<b>855,209</b>
- Debt value of lease		(7,193)
- Total Interest Bearing Debt		(10,654)
- Preferred Stock		-
Market Value of Equity	\$	<b>831,128</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>831,128</b>
Number of shares (primary)		2,848
Intrinsic Equity Value per share	\$	<b>291.86</b>



**93.59%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2020**

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# **Q3 Results**

July - September 2020

# Narrative | Segment Drivers

FY2020 | Q3

Advertising  
(+22%)

-9% increase in the average price per ad

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

35% increase in the number of ads delivered

↑ Increase in user and in engagement

↑ Increase in # and frequency of ads displayed

Payments  
and Other  
Fees (-7%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

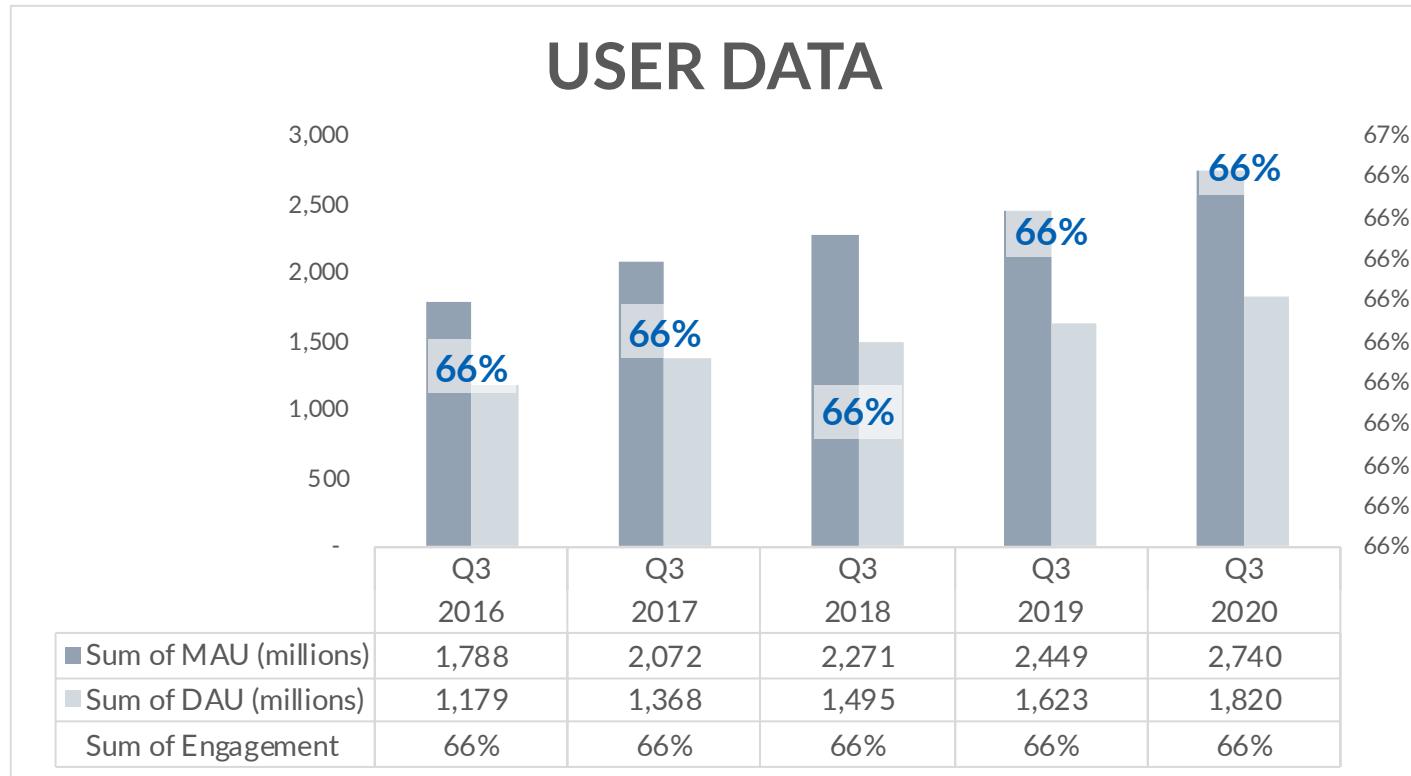
↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.

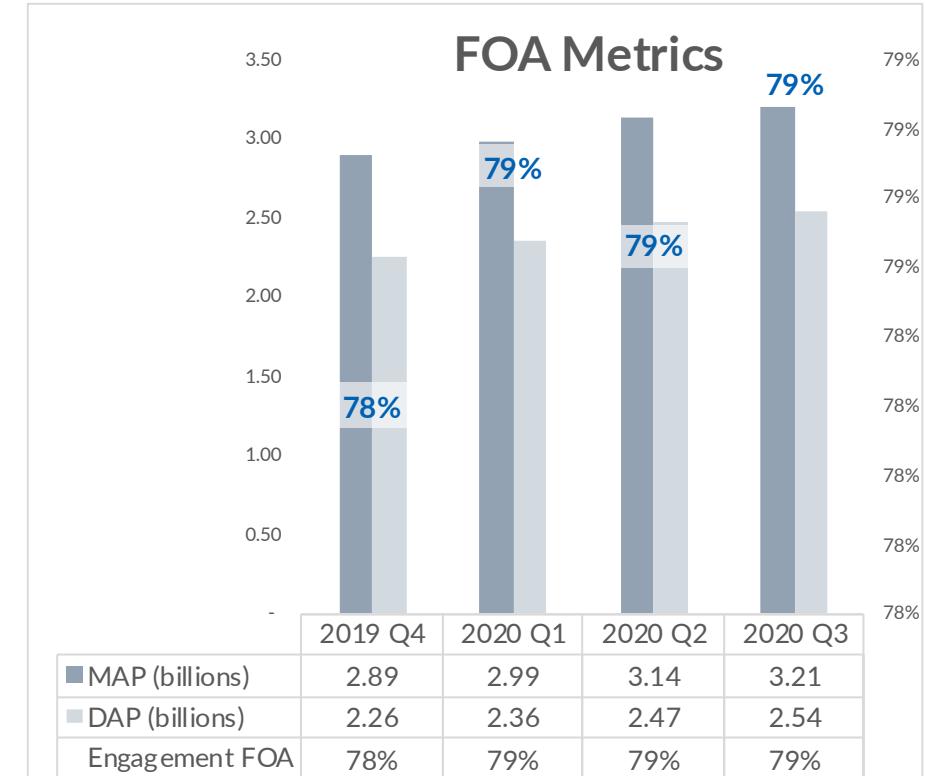
↓ Factors that offset growth.

# Narrative | User Data

FY2020 | Q3



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2020 | Q3

## COMPANY OUTLOOK

- Facebook continues to focus on security and transparency as it remains in the public top of mind.
- In the face of the coming election, are focused in removing misinformation and helping voters to register.
- Significant investment in hiring to continue developing new products.
- Focus on Reels, Messaging, Commerce efforts and long-term in VR & AR.
- Private messaging continues to be one of the means with highest growth in communication. Believe that users want to communicate between apps without having to switch (app interoperability).
- Launched Quest 2 VR headset which is lighter and has a sharper screen.
- Working on building blocks for AR glasses – partnering with makers of Ray-Ban and Oakley to build first smart glasses.
- Continue to support small businesses by creating tools to help them sell and communicate better with their customers.
- WhatsApp business growing in use. Are integrating WhatsApp business with Facebook Shops.
  - Wants businesses to be able to establish commercial presence across Facebook, Instagram and WhatsApp at the same time.
- Launched partnership with Coursera to train job seekers in social media marketing.
- E-commerce growing at a higher pace as pandemic has pushed its adoption.
- Agreed along with YouTube and Twitter to a common set definition of hate speech and other harmful content in partnership with the World Federation of Advertisers and the Global Alliance for Responsible Media.
- Expect more significant targeting and measurement headwinds in 2021.

# Narrative | General Information

FY2020 | Q3

## OTHER RELEVANT INFORMATION

- Facebook employees flagged a BJP lawmaker in India for violating the company's hate-speech rules and being potentially dangerous due to his rhetoric, but the company's top public-policy executive in India opposed applying the rules to him and other Hindu nationalist individuals and groups, revealing a pattern of favoritism towards Prime Minister Narendra Modi's party and Hindu hard-liners, while India is Facebook's largest market outside the US.<sup>[236](#)</sup>
- Facebook's CEO, Mark Zuckerberg, has been actively raising concerns about TikTok's Chinese ownership and its threat to American values and technological supremacy, while Facebook has taken an active role in raising concerns about the popular app, which has gained more than 100 million U.S. users and become the biggest threat to Facebook's dominance of social media.<sup>[237](#)</sup>
- Gun sellers are using Facebook Marketplace to disguise firearms as stickers with gun makers' logos, despite the platform's ban on private gun sales, as Facebook reports removing 1.3 million firearm-related posts between April and June 2020.<sup>[238](#)</sup>
- Facebook warns that Apple's privacy changes in its latest operating system will affect its ability to place personalized ads and hurt app-makers financially, as the changes will no longer allow the collection of a person's advertising identifier without their permission, affecting many companies that facilitate online advertising.<sup>[239](#)</sup>
- Facebook partners with NYU and University of Texas to study how Facebook and Instagram users in the US engage on the platforms in the run-up to elections, providing researchers with aggregated behavioral data without any funding or control from Facebook.<sup>[240](#)</sup>
- Facebook threatened to stop allowing Australians to share news on its platforms if lawmakers force tech companies to pay media companies for their content.<sup>[241](#)</sup>
- Facebook is appealing a preliminary order by Ireland's privacy regulator to suspend its data transfers from Europe to the U.S., with implications for other tech companies and potential changes to U.S. surveillance laws.<sup>[242](#)</sup>
- The Federal Trade Commission is preparing to file a potential antitrust lawsuit against Facebook by year-end, challenging the company's dominant position in social media after a year-long investigation.<sup>[243](#)</sup>
- Facebook plans to limit internal debate around divisive political and social topics, including delineating acceptable discussion areas and moderating discussions when they occur, to preserve its culture of openness and debate while preventing discord among employees.<sup>[244](#)</sup>
- Facebook lawyers have prepared a paper that argues breaking up the company from Instagram and WhatsApp would defy established law, cost billions of dollars and harm consumers, as federal antitrust enforcers and members of Congress continue to pursue investigations into Facebook's power and past competitive behavior.<sup>[245](#)</sup>
- WhatsApp plans to allow merchants to store and manage their WhatsApp communications with customers on Facebook's company servers, charging businesses for certain types of customer interactions to profit from the embrace of these tools while ensuring that users' communications with businesses are still fully encrypted.<sup>[246](#)</sup>
- Facebook is preparing emergency measures to slow the spread of viral content and potentially suppress inflammatory posts to reduce the chances of violence or civil unrest in the wake of the US election, part of a larger toolkit developed by the company.<sup>[247](#)</sup>
- Facebook records Q3 revenue of \$21.47 billion, boosted by strong digital ad spending, projected to grow further in Q4 due to holiday season, despite facing regulatory threats and limitations on data collection.<sup>[248](#)</sup>

# Assumptions

FY2020 | Q3

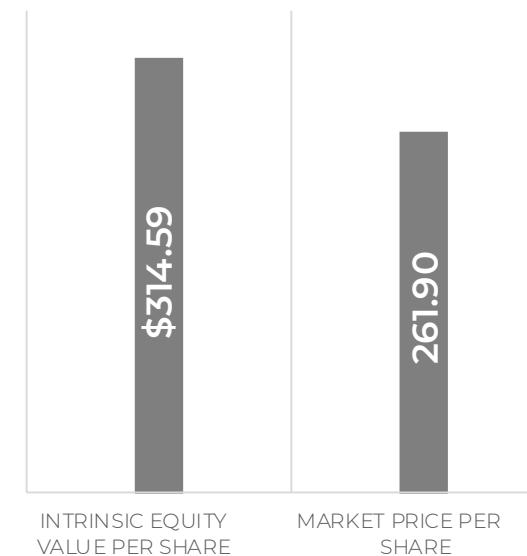
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$78,976	20.00%	0.69%	0.69%	Facebook's revenue growth rate will be impacted by several factors. Driving growth are ads, new products such as Reels, Messaging, and commerce, and e-commerce, accelerated by the pandemic. However, public scrutiny and ongoing privacy and security issues could make users and advertisers question Facebook's commitment. Apple's privacy changes will also make targeting more difficult, reducing revenue due to less data for advertisers and developers. No major impact was seen from the boycott, so assuming greater YoY growth than before.
OPERATING MARGIN	44.33%	20.00%	35.00%	35.00%	Facebook's operating margin has been negatively impacted by several factors, including increased use of its platform at a time when advertisers are spending less. Additionally, Facebook has had to continue investing in privacy and security measures to address user concerns. The company is also investing in AI to improve its products and enhance safety on the platform, which is further impacting its operating margin.
TAX RATE	13.72%	13.72%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.72	RIR =	6.33%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	27.73%	Marginal ROIC =	15.12%	10.90%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		6.79%	5.90%	5.90%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2020 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$94,771	39.47%	\$37,402	\$32,270	\$21,789	\$10,481
2	\$113,725	34.60%	\$39,348	\$33,950	\$26,147	\$7,802
3	\$136,471	29.73%	\$40,576	\$35,009	\$31,376	\$3,633
4	\$163,765	24.87%	\$40,722	\$35,135	\$37,652	-\$2,516
5	\$196,518	20.00%	\$39,304	\$33,911	\$45,182	-\$11,271
6	\$228,232	35.00%	\$79,881	\$66,800	\$43,749	\$23,051
7	\$256,249	35.00%	\$89,687	\$72,618	\$38,650	\$33,968
8	\$277,810	35.00%	\$97,234	\$76,146	\$29,743	\$46,403
9	\$290,456	35.00%	\$101,660	\$76,912	\$17,445	\$59,467
10	\$292,460	35.00%	\$102,361	\$74,724	\$2,765	\$71,959
Terminal year	\$294,478	35.00%	\$103,067	\$75,239	\$4,762	\$70,477

The Value		
Terminal value		1,352,113
PV(Terminal value)		718,843
PV (CF over next 10 years)		146,168
Value of operating assets	\$	<b>865,011</b>
- Tax due on trapped cash brought back		(209)
+ Cash & Marketable Securities		55,620
Value of firm	\$	<b>920,421</b>
- Debt value of lease		(7,594)
- Total Interest Bearing Debt		(10,616)
- Preferred Stock		-
Market Value of Equity	\$	<b>896,047</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>896,047</b>
Number of shares (primary)		2,848
Intrinsic Equity Value per share	\$	<b>314.59</b>



**83.25%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2020**

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# **Q2 Results**

April – June 2020

# Narrative | Segment Drivers

FY2020 | Q2

Advertising  
(+17%)

-16% increase in the average price per ad

- ↓ Decrease in demand due to COVID-19 pandemic over the last 3 weeks of the quarter
- ↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

39% increase in the number of ads delivered

- ↑ Increase in user and in engagement
- ↑ Increase in # and frequency of ads displayed

Payments  
and Other  
Fees  
(+80%)

Decrease in Payment revenue from games played on PCs.

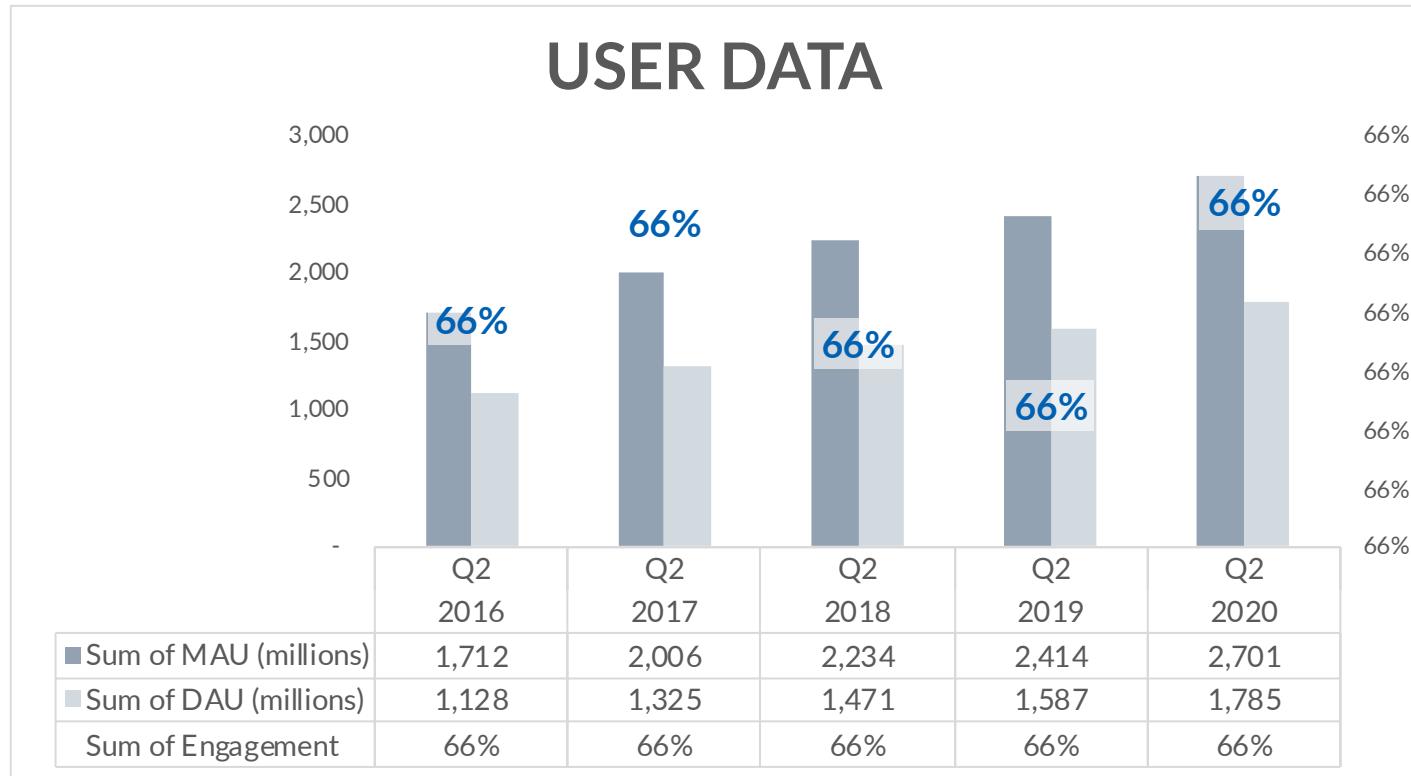
- ↓ Expected to continue to decline as PC use declines.

- ↑ Offset in part by the delivery of VR headsets and related platform sales.

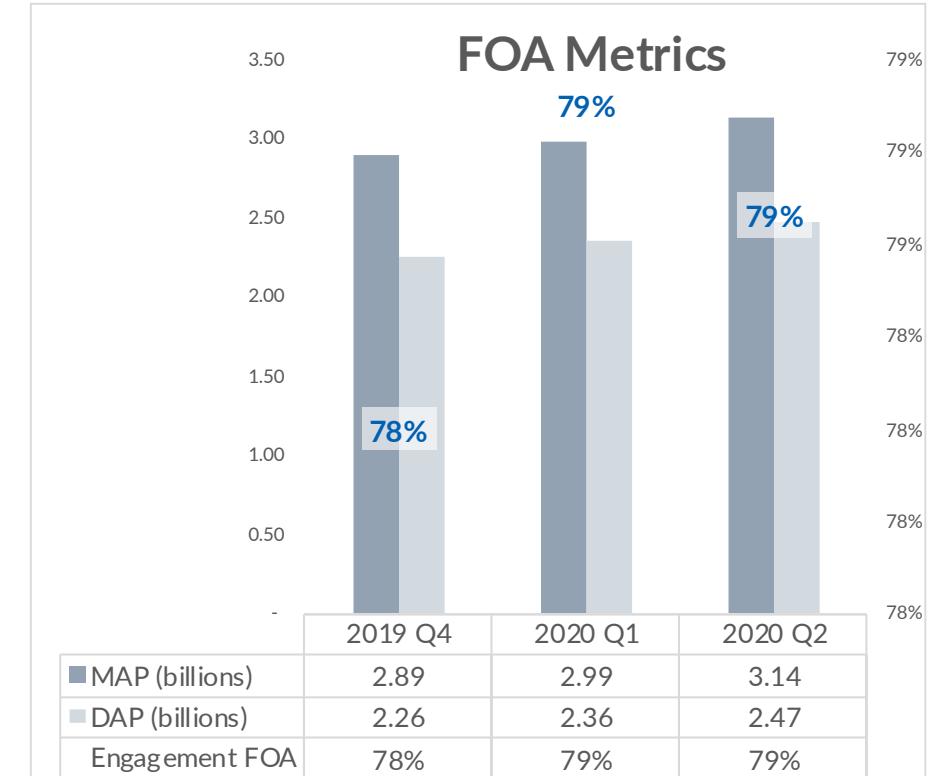
↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2020 | Q2



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2020 | Q2

## COMPANY OUTLOOK

- AI advances helping police the network – already identifying 90% of hate speech.
- FB is being audited by Media Rating Council to look at content monetization policies and brand safety control.
- Going to work with Global Alliance for Responsible Media to provide greater transparency into measurement of hate speech numbers.
- Most of FB's workforce is working productively remotely due to COVID-19 pandemic. Plan to make this a permanent option for the future.
- Unclear how the economic impact of the pandemic will affect the business.
- Continue focusing on removing interference from the coming presidential election in the US.
- AR & VR: increase sales of Portal + Oculus Quest has more usage than any other device in its ecosystem.
- Considerable recovery in May & June when seeing YoY revenue comparisons.
- People are spending more time online – businesses have to be online too.
  - Launched Businesses Nearby tool in order to give users the information of businesses in their neighborhood.
- Announced a \$100M investment in Black-owned small businesses, black creators and non-profits that benefit black communities.
- Growth was primarily driven by medium and small businesses who leveraged on ad-platform in order to connect with their consumers.
- Increased diversification in advertiser base (Top 100 advertisers represented 16% of their revenue).
- Are seeing deceleration in expense growth as employees are WFH but also had extensive hiring spree, primarily in technical functions.
- Closed investment with Jio Platforms Limited in July.

# Narrative | General Information

FY2020 | Q2

## OTHER RELEVANT INFORMATION

- Facebook may be denied accreditation by the media industry's measurement watchdog due to deficiencies in how it reports on advertising effectiveness, highlighting continued tension between the social network and advertisers.<sup>[223](#)</sup>
- The Messenger Kids app has experienced a surge in daily active accounts during the pandemic, with parents having full control over the app's usage and their child's activity, but some experts have raised concerns over privacy and guidelines for easing children into social media use.<sup>[224](#)</sup>
- Facebook is acquiring Giphy to integrate its GIF library into Instagram and other apps, with the terms of the deal remaining undisclosed.<sup>[225](#)</sup>
- Facebook's algorithms have been accused of exacerbating polarization and tribal behavior on the platform, with internal presentations stating that divisive content is attractive to the human brain, and that extremist content thrives in more than one-third of large political groups due to Facebook's recommendation tools. Facebook's attempts to combat polarization have been met with internal resistance, with some executives concerned that mitigating the platform's most dedicated users would harm publishers with enthusiastic followings.<sup>[226](#)</sup>
- Advertising agency 360i is advising clients to support the July ad boycott against Facebook called for by civil-rights groups, amid growing tensions between Madison Avenue and the social network over how it polices its content.<sup>[227](#)</sup>
- Facebook removed posts and ads for President Trump's reelection campaign for violating the social media giant's policy against "organized hate" due to including a banned hate group's symbol, while Twitter labeled a post as glorifying violence and took a new step in moderating Mr. Trump's tweets.<sup>[228](#)</sup>
- Opponents of social-distancing rules are using Facebook to organize and broadcast protests at the homes of health officials, sometimes using violent rhetoric, in campaigns that health authorities say amount to harassment and violate the social-media giant's rules against spreading coronavirus misinformation.<sup>[229](#)</sup>
- Facebook executives vow to tackle hate speech on their platform and invest in AI technology to detect it, following a boycott by several advertisers including Ben & Jerry's and North Face over concerns about the proliferation of hate speech and misinformation. However, Facebook maintains that its policies are based on principles rather than business interests, while many major advertisers are still considering joining the boycott.<sup>[230](#)</sup>
- Companies are pausing their advertising on Facebook in response to civil-rights groups' call for a boycott, and some are shifting their ad spending to other platforms such as YouTube and TikTok, while others are redirecting their spending to tools they already use, such as Google, Amazon, and Pinterest.<sup>[231](#)</sup>
- Ford, Clorox, and Denny's have halted advertising spending on Facebook due to concerns over the handling of hate speech and misinformation, joining other companies such as Coca-Cola, Verizon, and Unilever.<sup>[232](#)</sup>
- Facebook leaders will meet with civil rights groups to discuss requests for the company to hire an executive with civil rights expertise, make meaningful changes, and be more accountable for hate speech and misinformation, as well as implement regular outside audits and flagging systems for objectionable content.<sup>[233](#)</sup>
- Civil-rights advocates met with Facebook CEO Mark Zuckerberg to demand action on hate speech and racism on the platform, but left the meeting feeling no progress had been made, prompting them to call for more advertisers to pause their spending on Facebook globally; Facebook says it has invested billions in content moderation and removed hundreds of white supremacist entities from its platforms, and that it wants to be free of hate speech.<sup>[234](#)</sup>
- Advertisers who previously boycotted Facebook due to its handling of hate speech are starting to return, but some brands are still extending their boycotts into August, and Facebook's financial outlook remains unaffected.<sup>[235](#)</sup>

# Assumptions

FY2020 | Q2

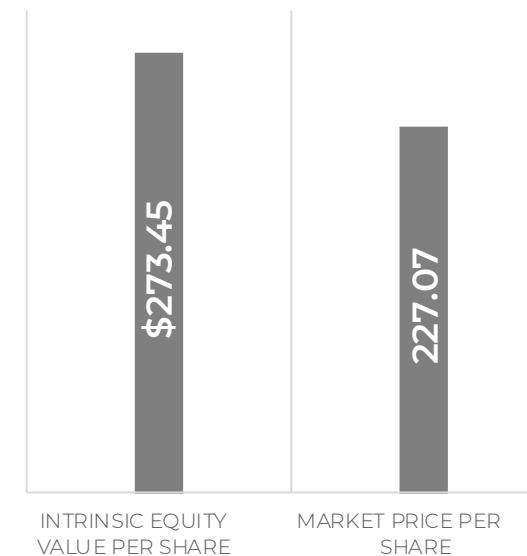
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$75,158	18.00%	0.66%	0.66%	Facebook's future revenue growth is expected to be driven primarily by advertising, which remains the company's main revenue stream. The sales of Oculus Quest and Portal, as well as the increased use of Facebook to look up businesses during the pandemic, are also expected to contribute to growth. However, Facebook's various issues have put the company in the spotlight, and the boycott of advertisers over concerns about hate speech and misinformation may offset some of the growth. Despite these challenges, Facebook is well-positioned to maintain its dominant position in the social media space, although it will need to take steps to address the concerns of users and advertisers to sustain long-term growth.
OPERATING MARGIN	44.38%	15.00%	35.00%	35.00%	Facebook's operating margin has been negatively impacted by several factors, including increased use of its platform at a time when advertisers are spending less. Additionally, Facebook has had to continue investing in privacy and security measures to address user concerns. The company is also investing in AI to improve its products and enhance safety on the platform, which is further impacting its operating margin.
TAX RATE	17.44%	17.44%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.77	RIR =	6.07%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	28.28%	Marginal ROIC =	15.97%	10.87%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		6.75%	5.87%	5.87%	Assuming 2.5% points above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2020 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$88,686	38.51%	\$34,151	\$28,193	\$17,528	\$10,665
2	\$104,650	32.63%	\$34,148	\$28,191	\$20,684	\$7,507
3	\$123,487	26.75%	\$33,037	\$27,274	\$24,407	\$2,867
4	\$145,715	20.88%	\$30,421	\$25,114	\$28,800	-\$3,686
5	\$171,943	15.00%	\$25,791	\$21,292	\$33,984	-\$12,692
6	\$196,930	35.00%	\$68,926	\$55,584	\$32,375	\$23,210
7	\$218,718	35.00%	\$76,551	\$60,271	\$28,231	\$32,041
8	\$235,332	35.00%	\$82,366	\$63,276	\$21,526	\$41,749
9	\$245,047	35.00%	\$85,766	\$64,249	\$12,587	\$51,662
10	\$246,664	35.00%	\$86,332	\$63,023	\$2,096	\$60,927
Terminal year	\$248,292	35.00%	\$86,902	\$63,439	\$3,852	\$59,587

The Value		
Terminal value		1,143,661
PV(Terminal value)		610,055
PV(CF over next 10 years)		129,712
Value of operating assets	\$	<b>739,767</b>
- Tax due on trapped cash brought back		(436)
+ Cash & Marketable Securities		58,240
Value of firm	\$	<b>797,571</b>
- Debt value of lease		(8,027)
- Total Interest Bearing Debt		(10,532)
- Preferred Stock		-
Market Value of Equity	\$	<b>779,012</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>779,012</b>
Number of shares (primary)		2,849
Intrinsic Equity Value per share	\$	<b>273.45</b>



**83.04%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2020**

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# **Q1 Results**

January – March 2020

# Narrative | Segment Drivers

FY2020 | Q1

Advertising  
(+17%)

-16% increase in the average price per ad

- ↓ Decrease in demand due to COVID-19 pandemic over the last 3 weeks of the quarter
- ↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

39% increase in the number of ads delivered

- ↑ Increase in user and in engagement
- ↑ Increase in # and frequency of ads displayed

Payments  
and Other  
Fees  
(+80%)

Decrease in Payment revenue from games played on PCs.

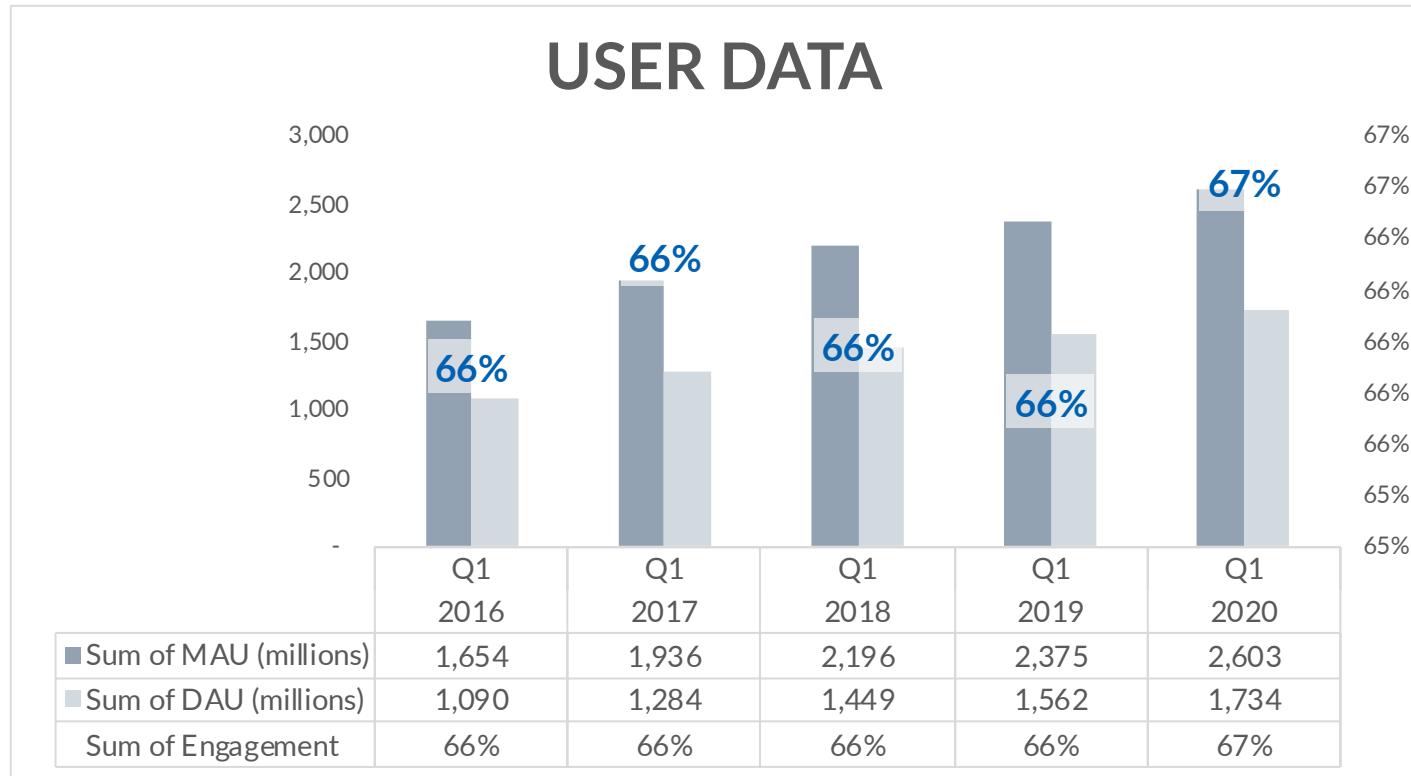
- ↓ Expected to continue to decline as PC use declines.

- ↑ Offset in part by the delivery of VR headsets and related platform sales.

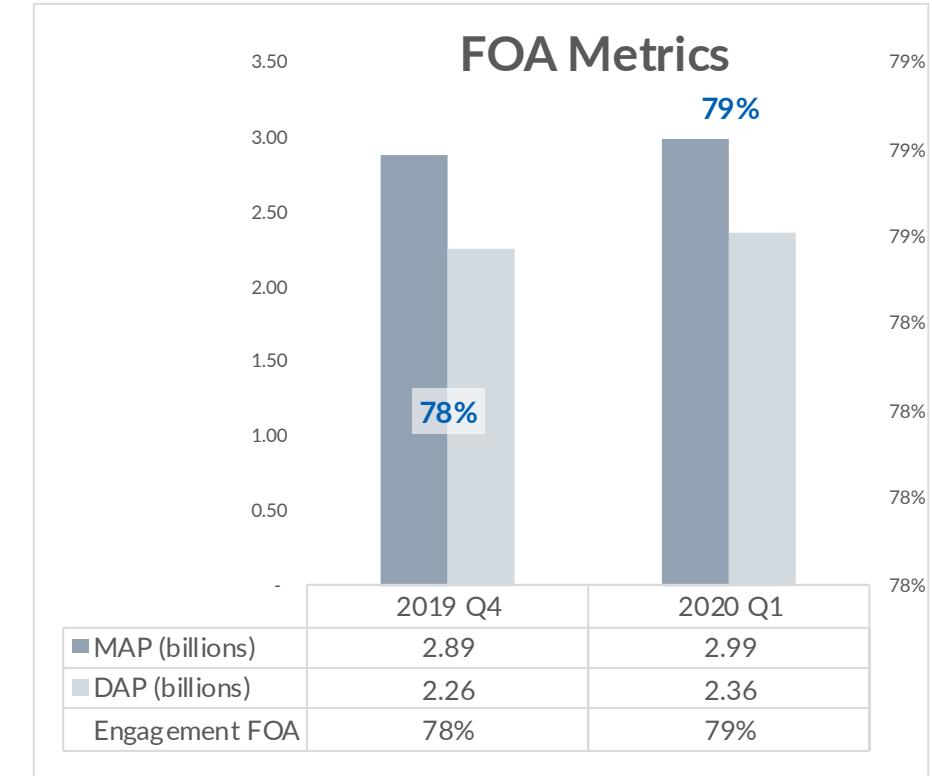
↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2020 | Q1



*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*



*\*\*Family of Apps (FOA) Metrics refers to unique users of one of FB's apps, where MAP are Monthly Active People and DAP is Daily Active People. These metrics showcase FB's overall engagement with users considering overlapping between apps.*

# Narrative | General Information

FY2020 | Q1

## COMPANY OUTLOOK

- COVID-19 affecting business as advertising demand slows. FB focuses on 3 areas: helping people stay connected while we're apart, assisting the public health response and working on economic recovery, especially for small businesses.
- Created a COVID-19 information center with authoritative information from health officials and governments + limiting spread of misinformation.
- Experienced a major increase in use of all services, particularly messaging (increased +50% in use) + voice and video calling have more than doubled across Messenger and WhatsApp.
  - Making sure services are stable and reliable is a priority.
- Partnership with Jio Platforms in India. Jio Mart is a small business initiative to connect millions of shops across India with WhatsApp. Largest FB & WA communities in the world are currently in India.
- Are planning to hire at least 10,000 more people in product and engineering roles to continue building and making progress in innovations. Especially important to make up for some of the things other companies would pull back from. See it as an opportunity.
- Expect to moderate some expenses as advertisers spending less resulted in business results below expectations.
- People are using FB & IG to look for businesses online.
- WhatsApp and Messenger are being used more by businesses to reach their customers.
- After initial steep decrease in ad revenue in March, have seen signs of stability reflected in first 3 weeks of April (revenue has been flat vs same period in 2019).

# Narrative | General Information

FY2020 | Q1

## OTHER RELEVANT INFORMATION

- The European Union has intensified its antitrust investigation into Facebook's alleged attempts to eliminate potential competitors by requesting internal documents, including emails, chat logs, and presentations, and if found guilty, Facebook could face fines up to 10% of its worldwide annual revenue, as well as having to change its business practices.<sup>[210](#)</sup>
- Facebook faces a nine-year-long dispute with the Internal Revenue Service over how it structured its international operations, which could cost it more than \$9 billion and set rules for other U.S. multinationals accused of shifting profits to low-tax countries.<sup>[211](#)</sup>
- WhatsApp has reached two billion active users and its leader vows to defend the messaging app's end-to-end encryption, while declining to comment on how the company would react if ordered to create a back door or lose access to a major market.<sup>[212](#)</sup>
- Facebook postpones the European rollout of its dating service ahead of Valentine's Day due to compliance issues with European Union data protection rules, following pressure from regulators.<sup>[213](#)</sup>
- Facebook removed fake accounts from several countries, including Myanmar, Iran, and Russia, to combat misinformation, including false and misleading content on topics such as the US elections and foreign affairs, and some accounts used previously detected fake accounts to post comments in Facebook Groups.<sup>[214](#)</sup>
- After two years of delay, Facebook has finally allowed researchers to study internal data about content sharing on its platform, which will help in understanding patterns in fake news and the quality of information shared, but the long wait and privacy concerns highlight the difficulties outside researchers face when working with tech companies.<sup>[215](#)</sup>
- An amended complaint filed in a lawsuit against Facebook alleges that employees were aware that the company was overestimating how many people advertisers could reach.<sup>[216](#)</sup>
- Facebook reports a 50% increase in messaging and a doubling of video messaging in countries heavily impacted by the pandemic, but warns that increased usage will not protect the company from expected declines in digital advertising.<sup>[217](#)</sup>
- Facebook plans to rescue small businesses with a \$100 million fund and a new fundraising tool for selling digital gift cards, as many small businesses have been hit hard by the COVID-19 pandemic, and one-third of them don't have a formal web presence.<sup>[218](#)</sup>
- Facebook is still allowing posts promoting false Covid-19 cures and conspiracy theories, despite efforts to remove such misinformation, with sites boasting millions of followers promoting treatments like high doses of vitamin C and colloidal silver, as well as the unproven theory that 5G wireless technology spreads the virus, according to watchdog group NewsGuard, which has been critical of Facebook's approach to policing content.<sup>[219](#)</sup>
- Facebook bans anti-lockdown protest posts and groups that don't comply with government health directives, as protesters seek to recruit new members on social media, with some groups eroding trust in public-health authorities and injecting Facebook into an increasingly polarized national debate.<sup>[220](#)</sup>
- Facebook's \$5.7 billion investment in Indian telecoms operator Jio Platforms creates a social media giant and mobile infrastructure titan with e-commerce ambitions, challenging rivals Amazon and Walmart in India's expanding online shopping market.<sup>[221](#)</sup>
- Facebook launches Messenger Rooms, a group video chat feature for up to 50 people, along with additional video options for gamers and singles on Facebook Dating, as part of its efforts to offer more video options to users staying home due to the coronavirus pandemic.<sup>[222](#)</sup>

# Assumptions

FY2020 | Q1

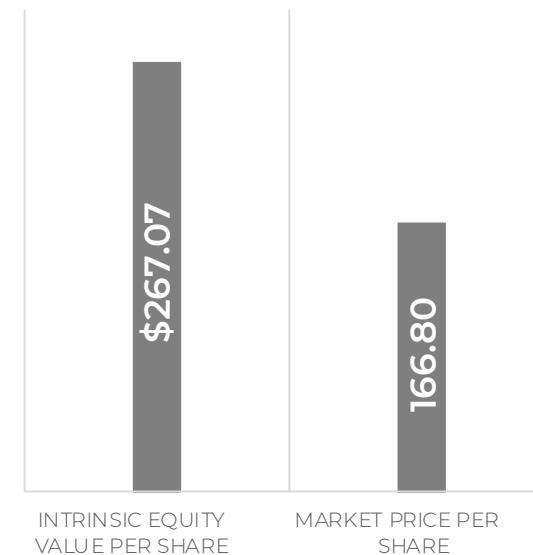
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$73,357	18.00%	0.70%	0.70%	<p>Facebook's revenue growth rate is driven by the increasing number of people who use Facebook and Instagram to find businesses online, providing an opportunity for e-commerce growth. However, this growth is offset by the impact of the COVID-19 pandemic on businesses and reduced advertising demand. Furthermore, regulatory restrictions could also limit Facebook's expansion, as evidenced by the delay of the dating feature in Europe due to regulation limitations.</p>
OPERATING MARGIN	43.08%	15.00%	35.00%	35.00%	<p>Facebook's future operating margin may be negatively impacted by the increased usage of its platform, which could lead to higher maintenance costs. This, combined with decreased advertiser spending, could translate into lower margins. However, despite this, Facebook plans to invest in the future by hiring an additional 10,000 employees for product and engineering positions.</p> <p>Facebook believes that during times when other companies are reducing investments, it is the right time to take the opportunity to invest and continue to innovate.</p>
TAX RATE	22.92%	22.92%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.84	RIR =	6.42%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	27.85%	Marginal ROIC =	18.62%	10.90%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		6.78%	5.90%	5.90%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2020 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$86,561	37.46%	\$32,429	\$24,995	\$15,744	\$9,251
2	\$102,142	31.85%	\$32,530	\$25,073	\$18,577	\$6,495
3	\$120,528	26.23%	\$31,616	\$24,369	\$21,921	\$2,448
4	\$142,223	20.62%	\$29,320	\$22,599	\$25,867	-\$3,268
5	\$167,823	15.00%	\$25,173	\$19,403	\$30,523	-\$11,120
6	\$192,225	35.00%	\$67,279	\$51,308	\$29,094	\$22,214
7	\$213,523	35.00%	\$74,733	\$56,383	\$25,394	\$30,989
8	\$229,793	35.00%	\$80,428	\$60,024	\$19,399	\$40,624
9	\$239,353	35.00%	\$83,773	\$61,838	\$11,398	\$50,440
10	\$241,028	35.00%	\$84,360	\$61,583	\$1,998	\$59,585
Terminal year	\$242,716	35.00%	\$84,950	\$62,014	\$3,984	\$58,030

The Value		
Terminal value		1,116,533
PV(Terminal value)		593,907
PV (CF over next 10 years)		124,910
Value of operating assets	\$	<b>718,817</b>
- Tax due on trapped cash brought back		(472)
+ Cash & Marketable Securities		60,289
Value of firm	\$	<b>778,635</b>
- Debt value of lease		(7,368)
- Total Interest Bearing Debt		(10,344)
- Preferred Stock		-
Market Value of Equity	\$	<b>760,923</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>760,923</b>
Number of shares (primary)		2,849
Intrinsic Equity Value per share	\$	<b>267.07</b>



**62.45%**

PRICE AS % OF VALUE

VALUATION YEAR

**FY2019**

January – December 2019



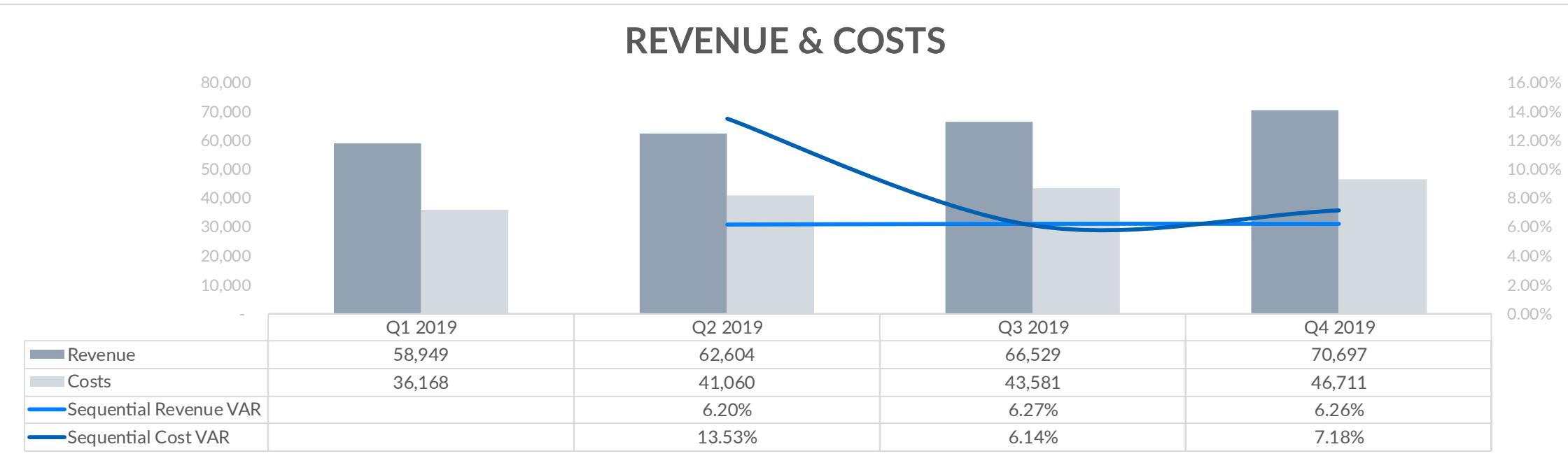


# General Narrative

- ∞ In addition to creating opportunities for Click-to-Messenger ads, messaging also presents an opportunity for e-commerce, as seen with WhatsApp Business and other tools that provide businesses with a platform for customer engagement and sales. Despite generating less data, Facebook's emphasis on messaging, small groups, and Stories may ultimately lead to new avenues for revenue growth and engagement.
- ∞ As the 2020 US elections draw nearer, Facebook's role is being scrutinized even more, especially in light of continued concerns around privacy, security, and transparency. With governments pushing for more regulation and new issues continually arising, Facebook is facing ongoing challenges in maintaining trust with users and the wider public.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5-year CAGR was 40.92% as FB has grown into the social media behemoth it is today. As the years have progressed and it has reached saturation in mature markets, sequential growth has decreased YoY and is expected to continue to do so in the future. FB is still expected to have double digit growth as it remains a big player in advertising and develops new products to increase ad inventory as well as alternative revenue streams.

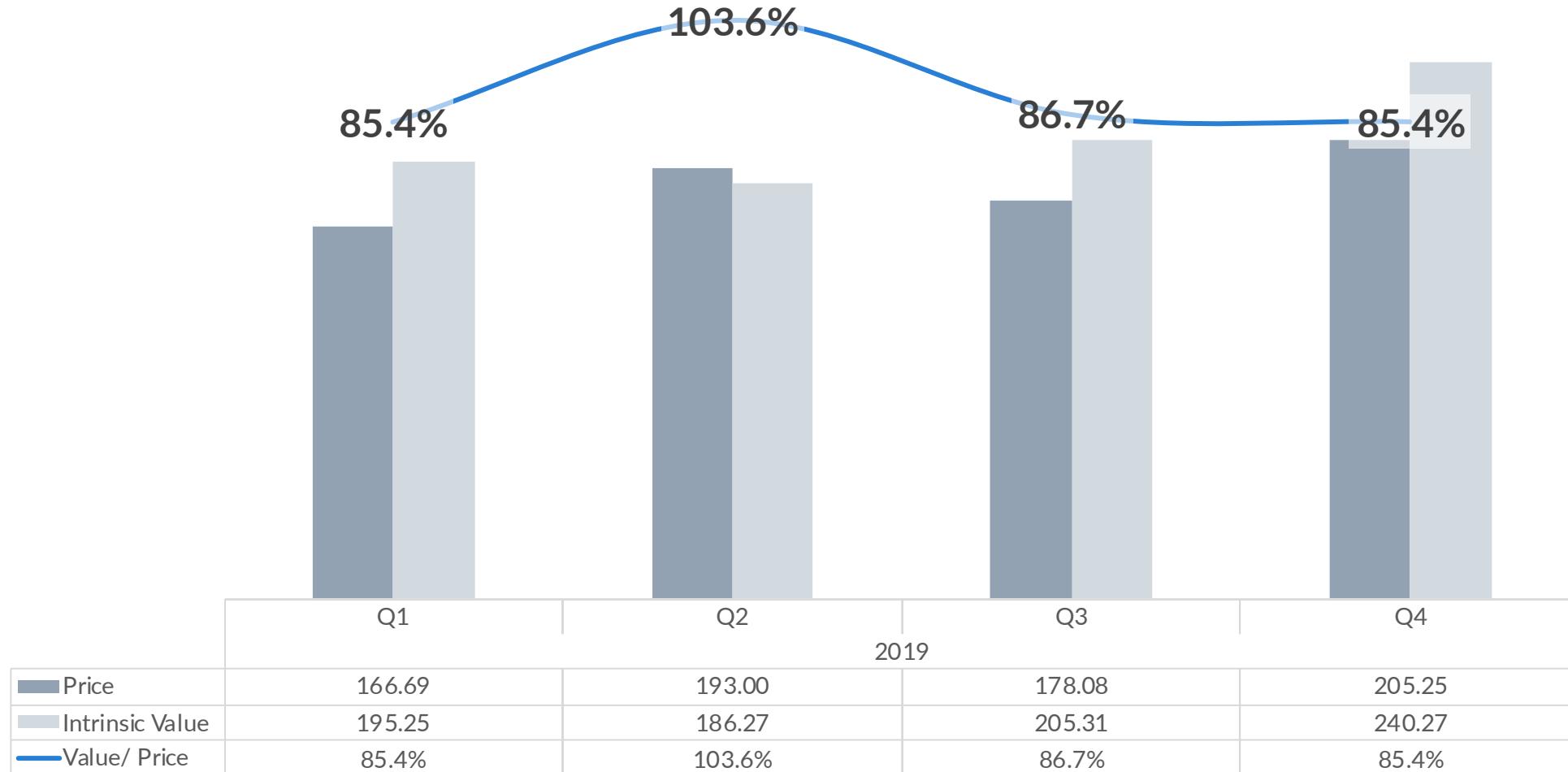
Costs 5-year CAGR was 41.35% as FB has needed to heavily invest in order to continue growing as well as additional investments in safety, security and privacy that increased significantly their YoY cost growth. This behavior is expected to continue in the near future as the company invests in both growth and privacy which will in turn affect margins.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Facebook introduces more tools to be more transparent where users can see why they are seeing a specific ad.
- ∞ Facebook sees e-commerce as an additional potential revenue stream and focuses on making it easier to shop on its platform, but received criticism over lack of control it currently presents in Marketplace.
- ∞ Millions of businesses are using WhatsApp Business tools and Facebook is working on developing more.
- ∞ Launch of many tools to help advertisers learn how to better use the platform and take the guessing out of making videos and targeting.
- ∞ Facebook doubles marketing expenses as it tries to rebuild its reputation amid all the public scandal it currently faces.
- ∞ Facebook stopped paying commission to employees who sell political ads but was criticized by the decision of not fact-checking them.
- ∞ Announce Libra, a cryptocurrency with the intention of making e-commerce easier, but it quickly loses its big backers due to regulatory concerns.
- ∞ Launch of Oculus Quest, first all-in-one headset with no wires as well as touch controls which sell at a better than expected rate.
- ∞ Competitors, including Snapchat, speak to the FTC about Facebook's hardball tactics and antitrust practices.

# Intrinsic Value vs Price





FISCAL YEAR  
**2019**

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# **Q4 Results**

October - December 2019

# Narrative | Segment Drivers

FY2019 | Q4

Advertising  
(+27%)

-5% increase in the average price per ad

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

Payments  
and Other  
Fees  
(+26%)

Decrease in Payment revenue from games played on PCs.

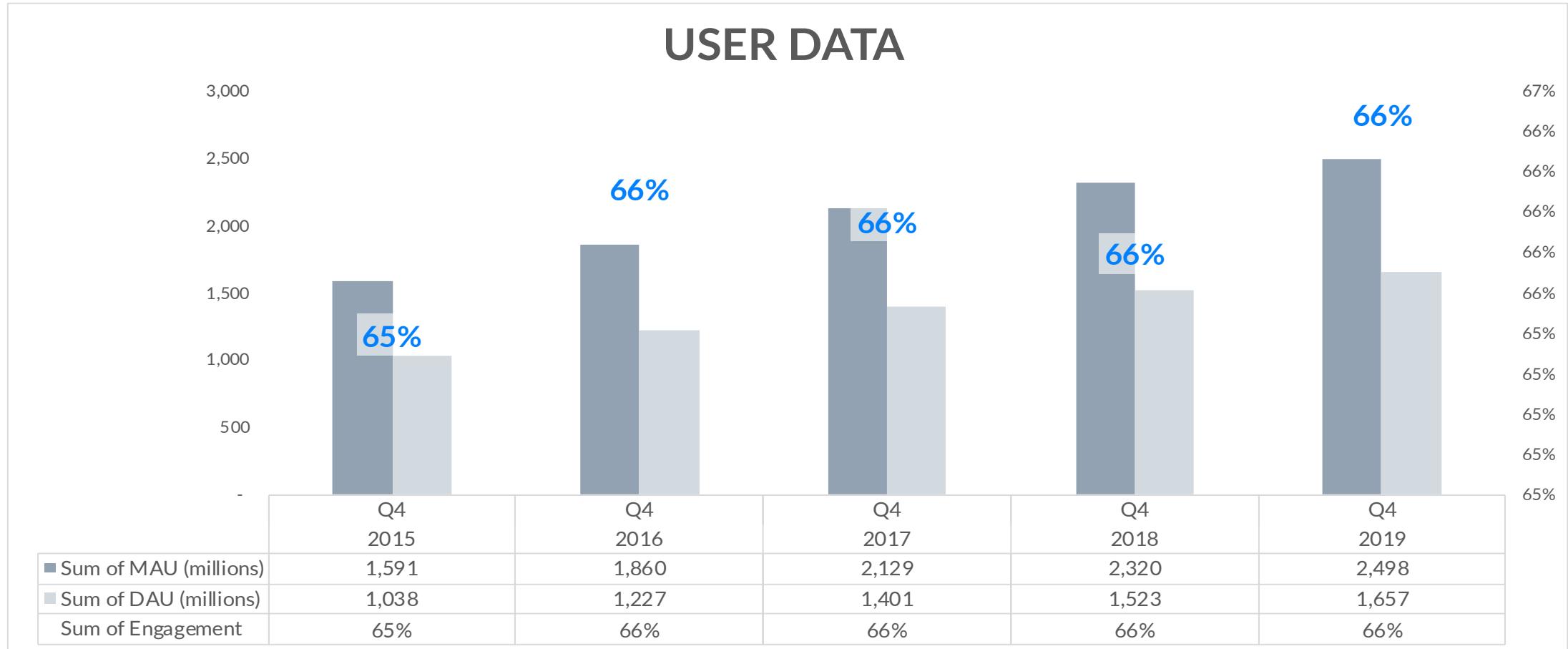
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2019 | Q4



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

## COMPANY OUTLOOK

- See 2020 as a critical year for making progress on social issues, specifically focused on election integrity.
- Greater focus on privacy as FTC settlement requires controls and auditing standards.
- Greatest growth in use comes from private messaging, small groups and disappearing stories where data doesn't stick around forever.
- Commerce and Payment seen as another area that will be important for the private social platform and across all FB apps.
  - WhatsApp Payments is expected to start rolling out in a number of countries and make a lot of progress in the next 6 months.
- Sales of Quest higher than expected and people are engaging with more content.
- Plan to disclose FB-only community metrics through late 2020.
- Will continue to focus R&D in core products as well as innovation efforts, primarily AR & VR.
- FTC settlement was booked as an expense in 2019 but still has not been paid.
- Growth in Stories and in geographies where FB monetizes less drove average price per ad decrease.

# Narrative | General Information

FY2019 | Q4

## OTHER RELEVANT INFORMATION

- Internal Facebook documents reveal that executives viewed messaging apps such as WhatsApp as a threat to the company's core business, potentially providing evidence for ongoing antitrust investigations, including a probe by the US Federal Trade Commission. The documents, which were part of confidential court filings from a lawsuit, were recently made public and may present further regulatory problems for Facebook as it faces a range of inquiries into its competitive practices and user data safeguards.<sup>[197](#)</sup>
- Facebook's decision not to fact-check or censor political ads has sparked controversy, with some calling for the company to be broken up, while others argue that the policy is wise and takes the company out of the political fray, highlighting the ongoing debate over internet censorship and freedom of speech.<sup>[198](#)</sup>
- Facebook is considering increasing the minimum number of people who can be targeted in political ads from 100 to a few thousand, as part of an effort to make it more difficult for advertisers to micro-target, while other tech companies like Google and Twitter are also implementing changes to their political ad policies.<sup>[199](#)</sup>
- Facebook's Nick Clegg says antitrust officials should view data as something complex that can be shared and kept simultaneously, rather than as a commodity that can be monopolized, as Facebook and Google face antitrust scrutiny on both sides of the Atlantic for their control and use of user data.<sup>[200](#)</sup>
- Dina Srinivasan, a former digital advertising executive, is gaining credibility for her argument that Facebook's use of personal data constitutes consumer harm and violates antitrust laws, which has won her invitations to present her work at antitrust conferences and meetings with state attorneys general investigating Facebook.<sup>[201](#)</sup>
- Facebook will pay \$130 million to fund an independent board to review how it moderates content, with five-person panels adjudicating controversies arising from Facebook's efforts to enforce its content standards, and the board will function like an appeals court.<sup>[202](#)</sup>
- Facebook tells advertisers it doesn't need to make changes to its web-tracking services to comply with California's new consumer-privacy law, setting up a potential early clash over how the closely watched law will be enforced once it goes into effect.<sup>[203](#)</sup>
- The Federal Trade Commission is reportedly considering seeking a preliminary injunction against Facebook over antitrust concerns related to how its products interact, specifically focusing on Facebook's policies concerning how it integrates its apps or allows them to work with potential rivals.<sup>[204](#)</sup>
- The Federal Trade Commission may try to block Facebook's efforts to integrate its apps, potentially leading to a breakup, which could impact Instagram, WhatsApp, and Facebook's advertising revenue.<sup>[205](#)</sup>
- Facebook is banning videos that have been manipulated using advanced tools to combat deepfakes, but its move drew criticism for not going far enough, and it won't remove most doctored content, nor block political advertisements even if they contain inaccurate information.<sup>[206](#)</sup>
- Facebook has abandoned plans to sell ads in WhatsApp and disbanded the team responsible for integrating ads into the messaging service, marking a retreat from a controversial plan that led to the resignations of the service's founders.<sup>[207](#)</sup>
- Facebook has agreed to a \$550 million settlement of an Illinois class-action lawsuit alleging it violated a 2008 law prohibiting companies from collecting biometric data without users' consent through its facial recognition technology, the largest-ever cash privacy settlement won by class-action attorneys, without admitting wrongdoing.<sup>[208](#)</sup>
- Facebook announced it will remove false claims about cures and prevention methods for coronavirus, block and restrict hashtags used to spread misinformation, alert users about false content and share data with universities to help forecast the virus's spread.<sup>[209](#)</sup>

# Assumptions

FY2019 | Q4

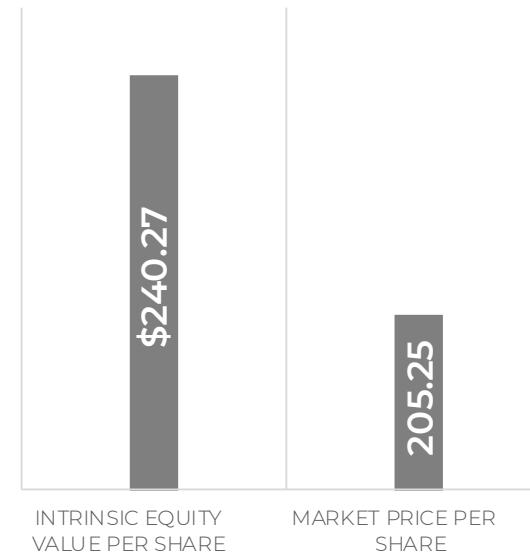
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$70,697	20.00%	1.92%	1.92%	Factors such as the increasing popularity of Stories, small groups, messaging, new users from emerging markets, and e-commerce as part of a new private social platform suggest potential for expansion. Even though Stories, small groups and messaging are increasing engagement, all these platforms limit the information that FB can collect which may lead to issues with targeting. Continued reputational damage due to concerns over privacy and the spread of misinformation, as well as potential regulation that could limit growth, may also offset these positive factors.
OPERATING MARGIN	40.87%	20.00%	35.00%	35.00%	Facebook's future operating margin is likely to be negatively impacted due to a few factors. The company is currently focused on research and development for its core products and innovations like VR and AR, as well as additional privacy, safety, and security measures, which could increase costs. Additionally, the current growth in Stories and emerging markets monetizes at lower rates, leading to a lower average price per ad and further impacting future margins.
TAX RATE	25.50%	25.50%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.84	RIR =	15.85%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	25.68%	Marginal ROIC =	20.09%	12.12%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.18%	7.12%	7.12%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2019 | Q4

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$84,836	36.69%	\$31,130	\$23,192	\$16,765	\$6,426
2	\$101,804	32.52%	\$33,107	\$24,665	\$20,119	\$4,546
3	\$122,164	28.35%	\$34,630	\$25,799	\$24,142	\$1,657
4	\$146,597	24.17%	\$35,438	\$26,401	\$28,971	-\$2,570
5	\$175,917	20.00%	\$35,183	\$26,212	\$34,765	-\$8,553
6	\$204,739	35.00%	\$71,659	\$53,171	\$34,175	\$18,996
7	\$230,880	35.00%	\$80,808	\$59,717	\$30,996	\$28,721
8	\$252,010	35.00%	\$88,204	\$64,918	\$25,055	\$39,863
9	\$265,961	35.00%	\$93,087	\$68,232	\$16,542	\$51,690
10	\$271,068	35.00%	\$94,874	\$69,258	\$6,055	\$63,203
Terminal year	\$276,272	35.00%	\$96,695	\$70,588	\$11,185	\$59,403

The Value		
Terminal value		1,143,015
PV(Terminal value)		536,170
PV (CF over next 10 years)		109,134
Value of operating assets	\$	645,304
- Tax due on trapped cash brought back		(606)
+ Cash & Marketable Securities		54,855
Value of firm	\$	699,553
- Debt value of lease		(4,271)
- Total Interest Bearing Debt		(10,324)
- Preferred Stock		-
Market Value of Equity	\$	684,872
- Options outstanding		-
Value of Equity in Common Stock	\$	684,872
Number of shares (primary)		2,850
Intrinsic Equity Value per share	\$	240.27



**85.43%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2019**

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# **Q3 Results**

July – September 2019

# Narrative | Segment Drivers

FY2019 | Q3

## Advertising (+28%)

-6% increase in the average price per ad

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

37% increase in the number of ads delivered

↑ Increase in user and in engagement

↑ Increase in # and frequency of ads displayed

Mobile advertising revenue was 94% of total ad revenue.

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (+36%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

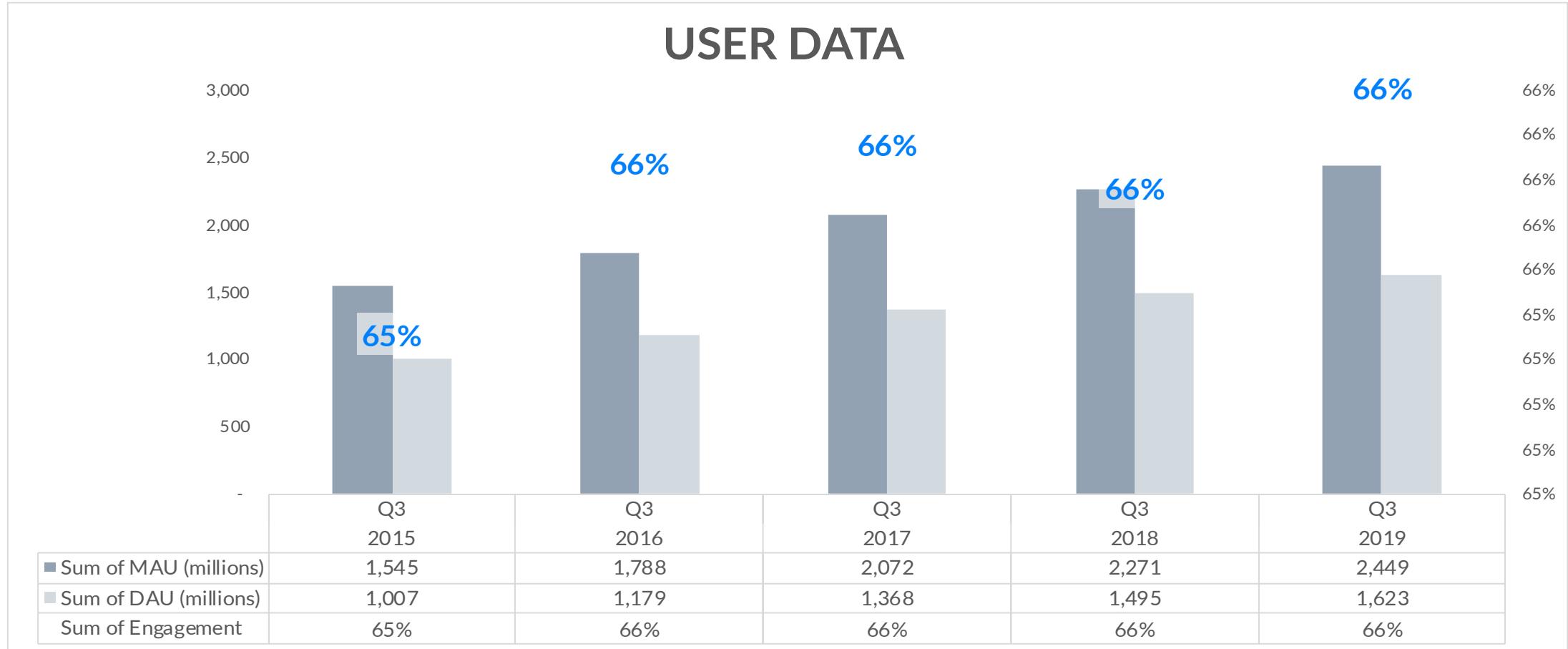
↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2019 | Q3



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2019 | Q3

## COMPANY OUTLOOK

- Launched several new exciting products including Facebook Dating in the US, Threads for Instagram (came first experience to share with close friends), Facebook News (dedicated product for News built with publisher partners), Horizon (new social experience for VR), and released hand tracking tech for Oculus and Oculus Link.
- Continued discussion on Libra.
- Formally entered a settlement with the FTC to make structural changes and build a rigorous privacy program that will set new standards for the industry.
- With 2020 US election looming close by, FB continues to face controversy over comments that their only interest is in making money even if the content affects users and results negatively.
  - They expect they will be the center of debate as they refuse to pick sides and defend free speech on the platform.
- Launched holiday bootcamps in offices to help SMBs learn how to use FB tools.
- Continue to make tools in general easier to use to help SMBs create mobile first ads.
- Added click-to-Messenger ads feature in Stories as these type of ads increase in use and business use Messenger to communicate directly with their customers.
- Introduced new wave of interactive advertising, launching a AR beta this quarter where people can try lip stick shades with a makeup brand.
- Strong growth continues to come from Asia & Pacific + Rest of the World.
- Continue to expect growth rate deceleration.
- Investments in datacenters and servers will continue as well as continued aggressive headcount growth – costs will continue to grow.

# Narrative | General Information

FY2019 | Q3

## OTHER RELEVANT INFORMATION

- The Federal Trade Commission is investigating Facebook's acquisition practices as part of an antitrust investigation, examining whether the company's purchases of potential rivals were an attempt to head off competitive threats, potentially leading to remedies such as restricting conduct with acquired assets or seeking spinoffs.[183](#)
- Facebook is rebranding Instagram and WhatsApp, adding "From Facebook" to the names in an effort to unify its family of apps, despite some opposition within the company and concerns that the association with Facebook's brand might harm those companies.[184](#)
- Facebook will start testing the sale of subscriptions to video services, allowing users to access services on other platforms, and is expected to take a cut of each subscription it generates for video partners.[185](#)
- Facebook plans to pay news outlets up to \$3 million a year for the rights to use their content in a news section launching later this year, as the company aims to compete with other news aggregators and address criticism over its impact on the struggling news industry.[186](#)
- The FBI's request for proposals to monitor social media for potential threats clashes with Facebook's privacy policies, which restrict the collection of large amounts of user data by law enforcement.[187](#)
- Facebook Marketplace creates a false sense of security for users and lacks oversight, making it a breeding ground for scams and payment fraud, but it remains popular with more than one in three people in the U.S. using it monthly.[188](#)
- Facebook is launching a tool called "Off-Facebook Activity" to let users see information that apps and websites gather on them and send to Facebook, but users can't delete the outside data that apps and websites send to Facebook, and it won't give users the ability to limit or see the full list of data that Facebook gathers from their direct interaction with the company's products; the tool will roll out to all users in the coming months.[189](#)
- Despite Facebook's claims of being a changed company, recent reports reveal that it is struggling to enforce its own rules on its platform, as users are still selling firearms on Marketplace despite a company ban, and Facebook's algorithms may be compounding the problem, putting the company's growth at risk.[190](#)
- Facebook executives praised their efforts in combating misinformation during Brazil's presidential election, but internal documents show the social media giant was unable to detect and prevent suspicious behavior or misinformation on a large scale after the assassination of politician Marielle Franco. Facebook relied on third parties to flag issues and took four months to dismantle a network spreading disinformation about Franco. The company found a right-wing group supporting the election's winner encouraging Facebook followers to use a third-party app enabling them to post on their behalf twice a day. Facebook has hired former law-enforcement and intelligence officials as part of its team of investigators looking for influence campaigns.[191](#)
- Facebook's competitors, including Snap Inc., are speaking to investigators from the Federal Trade Commission about the social media giant's hardball tactics and antitrust investigation, with Snap's legal team keeping a dossier called "Project Voldemort" chronicling Facebook's moves to undermine Snap's business, while the FTC is focusing on Facebook's acquisition of startups and whether CEO Mark Zuckerberg tried to buy competitors and copied their features.[192](#)
- Facebook's libra project, a bitcoin-like payments system, has lost high-profile backers due to regulatory concerns, but Facebook remains committed and is still working to launch the project in 2020 with a new coalition of partners.[193](#)
- Facebook has settled with the U.K.'s privacy regulator, agreeing to pay a £500,000 fine for allowing Cambridge Analytica to access users' data, but without admitting wrongdoing, while still facing antitrust inquiries in the U.S. and 11 more privacy investigations in Ireland.[194](#)
- Twitter is banning political advertising worldwide, in contrast to Facebook, due to concerns about the spread of false information on their platforms, while the decision was not based on the money generated from political ads, Twitter finance chief Ned Segal said.[195](#)
- Facebook employees urge the company to reverse its policy exempting political candidates' ads from fact-checking, stating that it allows politicians to misuse the platform and goes against Facebook's efforts to combat misinformation, and call for better differentiation of political ads and user-created content as well as limitations on political advertisers' ability to target specific audiences.[196](#)

# Assumptions

FY2019 | Q3

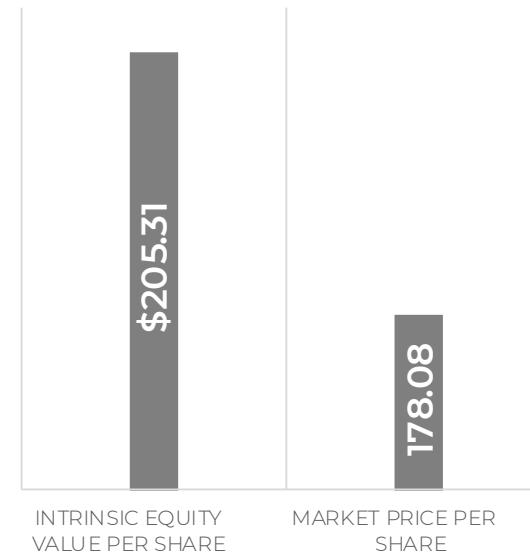
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$66,529	20.00%	1.68%	1.68%	Facebook announced new products that could both give it more potential ad spaces as well as more opportunities to internally gather more information on its users but as controversy still surrounds the company, further regulation will limit growth. Issues with Facebook Marketplace also add to mistrust in the company which can limit revenue from the e-commerce side.
OPERATING MARGIN	40.99%	20.00%	35.00%	35.00%	Facebook will continue to invest in privacy as it continues to invest in datacenters, servers and heavily increasing headcount. Facebook additionally plans to double its investments in Marketing to rebuild its reputation and is creating bootcamps for SMBs so that they can learn how to better use their products. All these factors in the short-term will hinder margins. In the long-term, expected to increase but assuming below today's averages in order to take into account that Facebook will have to keep investing in order to keep up with privacy issues in the future.
TAX RATE	23.70%	23.70%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.87	RIR =	13.42%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	27.07%	Marginal ROIC =	20.35%	12.51%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.64%	7.51%	7.51%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2019 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$79,835	36.79%	\$29,374	\$22,412	\$15,373	\$7,039
2	\$95,802	32.59%	\$31,226	\$23,825	\$18,448	\$5,378
3	\$114,962	28.40%	\$32,645	\$24,908	\$22,137	\$2,771
4	\$137,955	24.20%	\$33,383	\$25,470	\$26,565	-\$1,094
5	\$165,545	20.00%	\$33,109	\$25,262	\$31,877	-\$6,616
6	\$192,589	35.00%	\$67,406	\$50,985	\$31,245	\$19,740
7	\$216,994	35.00%	\$75,948	\$56,945	\$28,196	\$28,748
8	\$236,541	35.00%	\$82,789	\$61,528	\$22,584	\$38,945
9	\$249,181	35.00%	\$87,213	\$64,241	\$14,605	\$49,636
10	\$253,368	35.00%	\$88,679	\$64,735	\$4,837	\$59,899
Terminal year	\$257,624	35.00%	\$90,168	\$65,823	\$8,836	\$56,987

The Value		
Terminal value		976,715
PV(Terminal value)		439,918
PV (CF over next 10 years)		107,597
Value of operating assets	\$	<b>547,515</b>
- Tax due on trapped cash brought back		(449)
+ Cash & Marketable Securities		52,269
Value of firm	\$	<b>599,335</b>
- Debt value of lease		(4,721)
- Total Interest Bearing Debt		(9,132)
- Preferred Stock		-
Market Value of Equity	\$	<b>585,482</b>
- Options outstanding		-
Value of Equity in Common Stock	\$	<b>585,482</b>
Number of shares (primary)		2,852
Intrinsic Equity Value per share	\$	<b>205.31</b>



**86.74%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2019**

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# **Q2 Results**

April – June 2019

# Narrative | Segment Drivers

FY2019 | Q2

## Advertising (+28%)

-4% increase in the average price per ad

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

33% increase in the number of ads delivered

↑ Increase in user and in engagement

↑ Increase in # and frequency of ads displayed

Mobile advertising revenue was 94% of total ad revenue.

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (+36%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

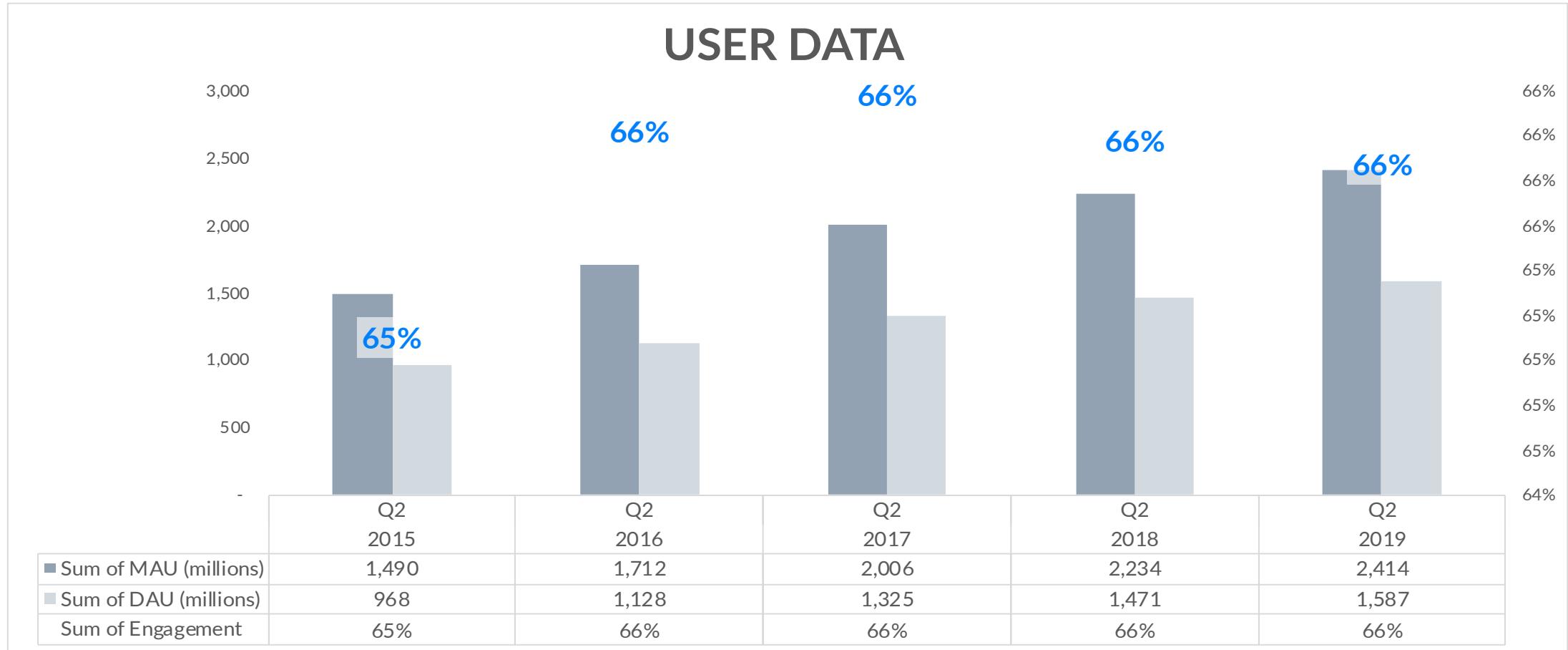
↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2019 | Q2



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2019 | Q2

## COMPANY OUTLOOK

- Settlement with FTC over privacy concerns will have a one-time effect on expenses due to \$5B fine.
  - Will also require further investing in how FB builds their services and runs the company.
  - Requires significant increase in accountability as they will have to certify quarterly that they are meeting privacy commitments.
  - Will include a Chief Privacy Officer to increase monitoring.
  - Expect that future FB products will take longer to ship.
  - Expect to form independent oversight board for decisions on content by the end of the year.
- Excited about their privacy-focused division for the future of social networking, starting with secure, private and interoperable messaging (give people the ability to message from whichever app they prefer).
  - Currently rewriting Messenger app from scratch to make it the fastest and most secure major messaging platform in the world.
  - WhatsApp Status is the most popular ephemeral stories product in the world.
  - Millions of business are using WhatsApp Business – currently building new tools like product catalog that entrepreneurs around the world can use for free.
  - Announced new Libra project which FB will be working with 27 other companies to create.
    - New currency powered by the blockchain, independent from FB or any other member but plan to support currency across their services.
    - Goal: empower billions of people who use services like WhatsApp but might be excluded from banking services with access to safe, stable and well-regulated cryptocurrency.
  - Want to enable people to be able to send money to friends, family and businesses using an FB payments account on WhatsApp, shop on Instagram or make transactions on Facebook.
  - Shipped Oculus Quest this Q: first all-in-one headset with no wires.
  - Introduces automated ads to take the guesswork out of creating effective ads.
  - Launched new video editing tool to help SMBs to quickly create eye-catching videos with images they already have.
  - Started rolling out ads in Instagram Explore – 50% of accounts on IG discover photos and videos related to their interest every month through this tab.

# Narrative | General Information

FY2019 | Q2

## OTHER RELEVANT INFORMATION

- Facebook's potential settlement with the FTC over data privacy breaches, which includes a potential fine of up to \$5 billion, is near completion and is likely to cover related services such as WhatsApp, with only narrow issues still under discussion. The settlement may also include significant changes to Facebook's governance, such as adding a committee of board members to oversee its privacy practices and requiring the company to undergo independent assessments of its privacy practices, among other things.<sup>[175](#)</sup>
- Facebook plans to launch a cryptocurrency-based payment system with the help of financial firms and online merchants that could upend traditional e-commerce and offer a new payment method for users to make purchases on Facebook and across the internet.<sup>[176](#)</sup>
- Chris Hughes, a co-founder of Facebook, is calling for the social media giant to be broken up due to Mark Zuckerberg's "unprecedented and un-American" power and focus on growth at the expense of security and civility, while Facebook said that new rules for the internet would be the best way to enforce accountability.<sup>[177](#)</sup>
- Facebook has stopped paying commissions to employees who sell political ads, as the company overhauls how it engages with campaigns ahead of elections in 2020 and considers ceasing running political ads altogether.<sup>[178](#)</sup>
- Facebook faces government scrutiny and a potential investigation into unlawful monopolistic practices, but investors continue to buy on dips due to the company's growth, while Instagram is not expected to match Facebook's core ad revenue until 2025.<sup>[179](#)</sup>
- Facebook found emails linking CEO Mark Zuckerberg to potential privacy violations, which may harm the company's reputation if made public, and has led to a push for a speedy settlement of the Federal Trade Commission's privacy investigation. The emails suggest that Zuckerberg and other executives did not prioritize compliance with the FTC's consent decree, which Facebook agreed to in 2012, and some FTC officials are debating whether to name Zuckerberg as a respondent in the complaint.<sup>[180](#)</sup>
- Facebook plans to double its global advertising spending to rebuild its reputation and work with new creative agencies on campaigns for brands like WhatsApp and Instagram, with a focus on diversity and promoting meaningful experiences.<sup>[181](#)</sup>
- Facebook's attempt to create an independent content oversight board has been met with little consensus, and the company will release a charter in August to govern the board's content moderation decisions.<sup>[182](#)</sup>

# Assumptions

FY2019 | Q2

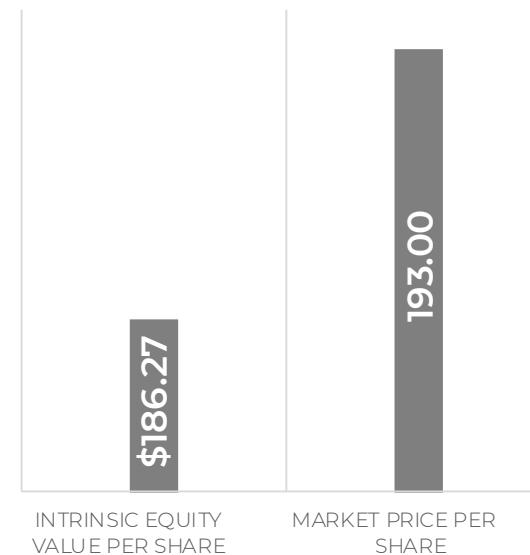
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$62,604	20.00%	2.00%	2.00%	<p>Facebook will continue to grow through new tools for advertisers that make it easier to use their platforms and create content, the launch of WhatsApp business, the introduction of the Oculus Quest - the first all-in-one headset with no wires, and the rollout of Instagram Explore, which creates more ad inventory.</p> <p>However, this growth is being offset by the company's ongoing reputational issues and its recent settlement with the FTC. Since FB believes that due to FTC settlements their products will take longer to ship, it will affect future growth as it won't be able to move as fast as it has in the past and take advantage of changing environment quickly.</p>
OPERATING MARGIN	40.76%	20.00%	35.00%	35.00%	<p>Recent investments made by Facebook in privacy and security, further intensified by the recent FTC settlement, are expected to have a negative impact on the company's margins. The decision to invest in marketing to rebuild its reputation and the costly overhaul of Messenger will also contribute to this downward trend. These investments will require a significant number of resources and may result in reduced profitability for Facebook in the near term.</p> <p>In the long-term, reduced margin to 35% assuming that part of it will be permanently impacted by needed investments in privacy and security.</p>
TAX RATE	23.13%	23.13%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.87	RIR =	15.59%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	27.22%	Marginal ROIC =	20.43%	12.83%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.01%	7.83%	7.83%	Assuming 15% variation above current WACC in order to incorporate further risk due to potential regulation and/or other reputation issues.

# NUMBERS

## FY2019 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$75,125	36.60%	\$27,499	\$21,139	\$14,411	\$6,728
2	\$90,150	32.45%	\$29,257	\$22,490	\$17,293	\$5,197
3	\$108,180	28.30%	\$30,617	\$23,536	\$20,752	\$2,784
4	\$129,816	24.15%	\$31,352	\$24,101	\$24,902	-\$801
5	\$155,779	20.00%	\$31,156	\$23,950	\$29,882	-\$5,933
6	\$181,327	35.00%	\$63,464	\$48,294	\$29,404	\$18,890
7	\$204,536	35.00%	\$71,588	\$53,922	\$26,713	\$27,208
8	\$223,354	35.00%	\$78,174	\$58,277	\$21,658	\$36,619
9	\$235,861	35.00%	\$82,552	\$60,902	\$14,396	\$46,506
10	\$240,579	35.00%	\$84,203	\$61,468	\$5,429	\$56,039
Terminal year	\$245,390	35.00%	\$85,887	\$62,697	\$9,773	\$52,924

The Value		
Terminal value		907,712
PV(Terminal value)		395,892
PV (CF over next 10 years)		99,456
Value of operating assets	\$	495,348
- Tax due on trapped cash brought back		(449)
+ Cash & Marketable Securities		48,596
Value of firm	\$	543,495
- Debt value of lease		(4,261)
- Total Interest Bearing Debt		(7,810)
- Preferred Stock		-
Market Value of Equity	\$	531,424
- Options outstanding		-
Value of Equity in Common Stock	\$	531,424
Number of shares (primary)		2,853
Intrinsic Equity Value per share	\$	186.27



**103.61%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2019**

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# **Q1 Results**

January – March 2019

# Narrative | Segment Drivers

FY2019 | Q1

## Advertising (+26%)

-4% increase in the average price per ad

↓ Increasing proportions of ads in Stories and in geographies that monetize at lower rate.

32% increase in the number of ads delivered

↑ Increase in user engagement  
↑ Increase in # and frequency of ads displayed

Mobile advertising revenue was 93% of total ad revenue.

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (-4%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

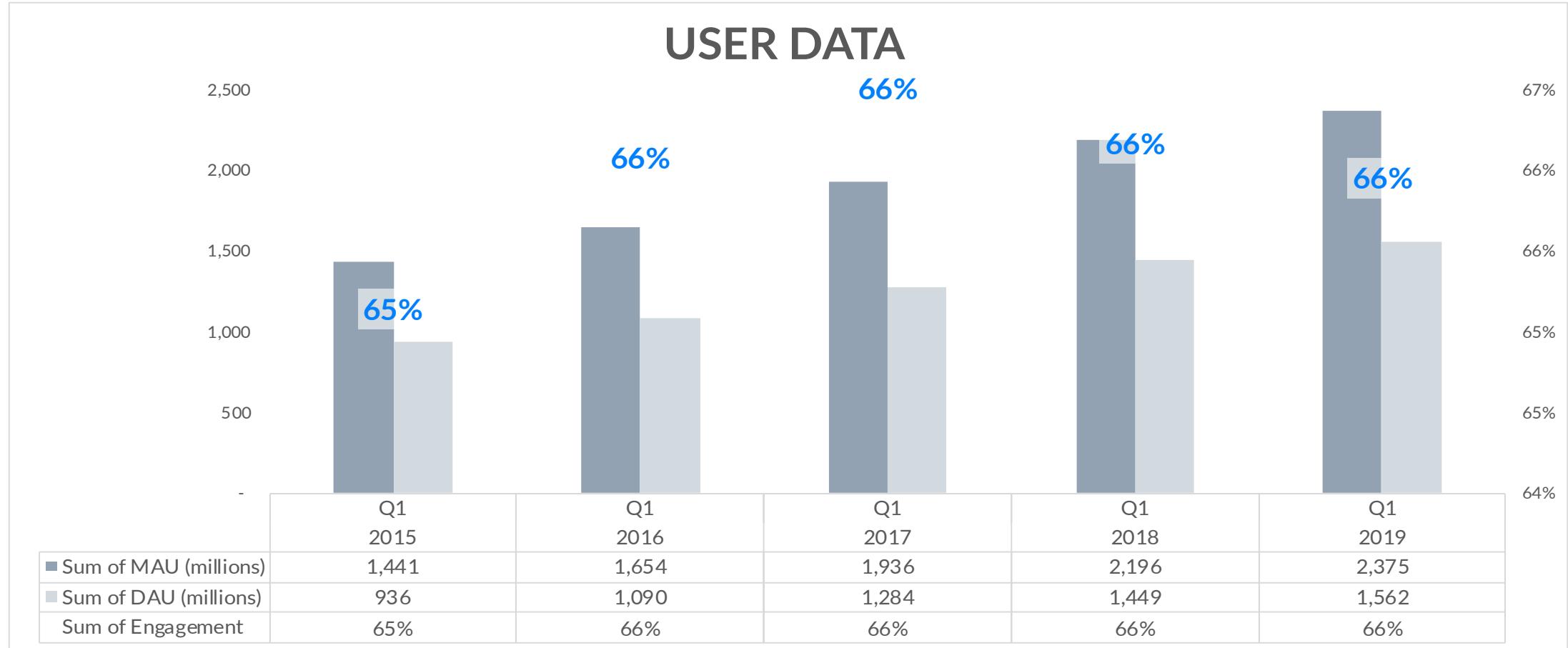
↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2019 | Q1



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2019 | Q1

## COMPANY OUTLOOK

- Fast adoption of Stories continues, being the largest contributor to YoY impression growth.
- Supply growth keeps prices low and creates opportunity for advertisers.
- Big opportunities in increasing privacy focusing on developing the platform with this in mind.
  - Principles for privacy are private interactions, encryption, reducing permanence, safety, interoperability, safety and secure data. These, especially encryption, will probably negatively impact the ad business.
- Risk concerning data localization – if FB gets blocked by major countries, that could hurt the community and the business.
- Believes that harmful content should be determined by a public process – FB is advocating from privacy and data laws that are general worldwide.
- Top 100 advertisers represent 20% of total ad revenue – advertiser base is more diverse when compared to previous periods.
- Introducing tools for greater user transparency to give people more context and control over which ads they see and better understand what shows up in their News Feed.
- Focused in making it easier for people to shop directly in FB apps – see commerce as a growing potential monetization stream.
- One-time expense of \$3B accrual taken in connection with the FTC probe into platform and user data practices.
  - Remains unresolved – estimate range of loss to be between \$3B-\$5B.

# Narrative | General Information

FY2019 | Q1

## OTHER RELEVANT INFORMATION

- Facebook's December quarter saw a nearly 30% increase in advertising revenue and user growth, contributing to a 10% surge in share price, but the company faces a challenge in increasing revenue from newer platforms and transforming traditionally ad-free platforms such as WhatsApp, which it acquired for \$22 billion in 2014 and is popular due to its privacy features.<sup>[161](#)</sup>
- A UK parliamentary committee has called for regulation and intensified scrutiny of social media companies, particularly Facebook, accusing the company of intentionally violating privacy and anticompetition laws while prioritizing profit over data privacy, and rebuking CEO Mark Zuckerberg for showing "contempt" towards the UK Parliament by refusing to appear before the committee.<sup>[162](#)</sup>
- Smartphone apps are sharing sensitive data, including health and financial information, with Facebook without prominent or specific disclosure, violating business terms and potentially EU privacy laws, with at least 11 popular apps being implicated, according to a report by The Wall Street Journal. Facebook has said it is telling flagged apps to stop sending information its users might regard as sensitive.<sup>[163](#)</sup>
- Facebook is shutting down its Onavo app that tracks user behavior and collecting intensely personal information from popular smartphone apps and will no longer conduct unpaid market research enabled by Onavo.<sup>[164](#)</sup>
- Health and fitness apps stopped sending sensitive personal information to Facebook after The Wall Street Journal reported they were transmitting details about their users' weight and menstrual cycles, and New York Gov. Andrew Cuomo ordered an investigation into the matter.<sup>[165](#)</sup>
- Facebook's ad tracking practices limit users' ability to control their personal data, including sensitive information shared by certain health and fitness apps, and how users can still be targeted with location-based ads even if they turn off location services. Additionally, Facebook's ad-transparency features are vague and insufficient, and its Pixel web tracker and SDK tool allow independent developers to track visitors and retarget them with ads.<sup>[166](#)</sup>
- Facebook plans to offer end-to-end encryption on all its major products and develop products such as payments and e-commerce within those messaging services, which could allow it to diversify from its ad-supported business model. This move would limit Facebook's responsibility for policing content, but also block governments from accessing encrypted messages. The encryption push is not imminent and will roll out on Facebook's other messaging products at least next year, along with bringing interoperability to its three central platforms: Facebook, WhatsApp, and Instagram.<sup>[167](#)</sup>
- Mark Zuckerberg has unveiled a privacy-focused vision for Facebook, which involves integrating its apps and services and using messaging apps to gather data and facilitate payments, but the company's advertising model remains unchanged.<sup>[168](#)</sup>
- Facebook's localized news aggregator, Today In, is not available in one-third of the US due to insufficient local news coverage, and online publishers have complained about Facebook and Google's power over news distribution and a change in Facebook's News Feed algorithm last year that affected digital publishers' traffic and caused some to go out of business.<sup>[169](#)</sup>
- Facebook stored user passwords in a format that its employees could access, affecting a large number of users, but the company said no passwords were exposed externally and there is no evidence of abuse, as the incident occurs amid a Federal Trade Commission review of Facebook's privacy policies and data handling, and the company has been criticized for its data governance practices.<sup>[170](#)</sup>
- Facebook CEO Mark Zuckerberg is redirecting public outrage towards regulators, stating that the company shouldn't be making decisions about harmful speech, political advertising, and cybersecurity alone, but the move has raised concerns from Federal Communications Commission officials about government regulation of free speech.<sup>[171](#)</sup>
- Facebook sets aside \$3-5 billion for potential FTC settlement, which could establish privacy benchmarks for other companies and serve as a warning shot for tech firms with previous consent decrees, while some lawmakers call for stronger action by Congress.<sup>[172](#)</sup>
- Facebook has rolled out a redesign of its website and mobile app to emphasize private groups and visual stories, and to discourage users from gravitating toward groups that promote conspiracy theories or misinformation, while also integrating Messenger with Instagram and WhatsApp, and expanding its dating app to 19 countries with a new feature called "Secret Crush."<sup>[173](#)</sup>
- Facebook is shifting towards private, encrypted communication which may benefit users but potentially harm developers and advertisers as it limits access to user data and removes visibility for advertising.<sup>[174](#)</sup>

# Assumptions

FY2019 | Q1

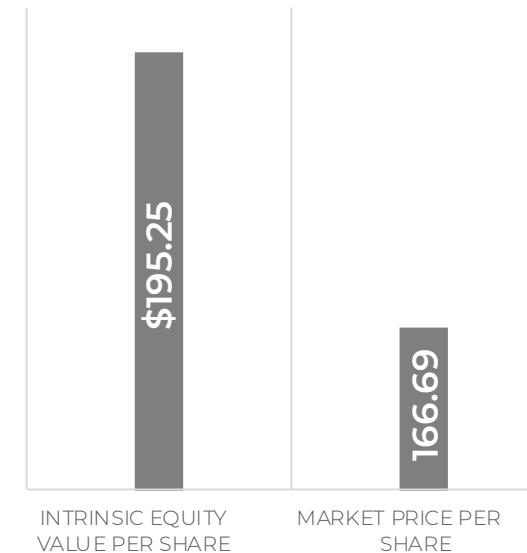
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$58,949	20.00%	2.41%	2.41%	The main drivers of Facebook's growth remain stories and messaging overall as well as gaining new users in emerging markets. However, this growth is offset by scandals and reputational damage, leading to increased regulation, calls for greater transparency, and mistrust from both users and advertisers. The company is also facing challenges in increasing revenue from other platforms, such as WhatsApp, which is popular due to its focus on privacy.
OPERATING MARGIN	44.74%	20.00%	40.00%	40.00%	Facebook's margin is expected to decrease as the company has committed to investing in privacy, in addition to its current growth investments. The implementation of GDPR in Europe has also affected Facebook's revenue, as it is one of its most profitable regions with higher ad prices. This trend may continue in other major markets, such as the US and Canada, as further regulations are put in place.
TAX RATE	15.84%	15.84%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.83	RIR =	18.22%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	31.07%	Marginal ROIC =	21.68%	13.23%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.46%	8.23%	8.23%	Assuming 15% variation increment above current WACC in order to incorporate further risk due to potential regulation and/or other issues that stem from the Cambridge Analytica scandal.

# NUMBERS

## FY2019 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$70,739	39.79%	\$28,148	\$23,689	\$14,288	\$9,401
2	\$84,887	34.84%	\$29,577	\$24,892	\$17,146	\$7,746
3	\$101,864	29.90%	\$30,453	\$25,629	\$20,575	\$5,054
4	\$122,237	24.95%	\$30,495	\$25,665	\$24,690	\$975
5	\$146,684	20.00%	\$29,337	\$24,690	\$29,628	-\$4,938
6	\$170,860	40.00%	\$68,344	\$55,993	\$29,300	\$26,693
7	\$193,011	40.00%	\$77,204	\$61,529	\$26,844	\$34,685
8	\$211,243	40.00%	\$84,497	\$65,455	\$22,095	\$43,360
9	\$223,765	40.00%	\$89,506	\$67,337	\$15,176	\$52,161
10	\$229,158	40.00%	\$91,663	\$66,914	\$6,536	\$60,379
Terminal year	\$234,680	40.00%	\$93,872	\$68,527	\$12,484	\$56,042

The Value		
Terminal value		963,155
PV(Terminal value)		403,439
PV (CF over next 10 years)		120,800
Value of operating assets	\$	524,239
- Tax due on trapped cash brought back		(445)
+ Cash & Marketable Securities		45,243
Value of firm	\$	569,037
- Debt value of lease		(4,488)
- Total Interest Bearing Debt		(7,210)
- Preferred Stock		-
Market Value of Equity	\$	557,339
- Options outstanding		-
Value of Equity in Common Stock	\$	557,339
Number of shares (primary)		2,854
Intrinsic Equity Value per share	\$	195.25

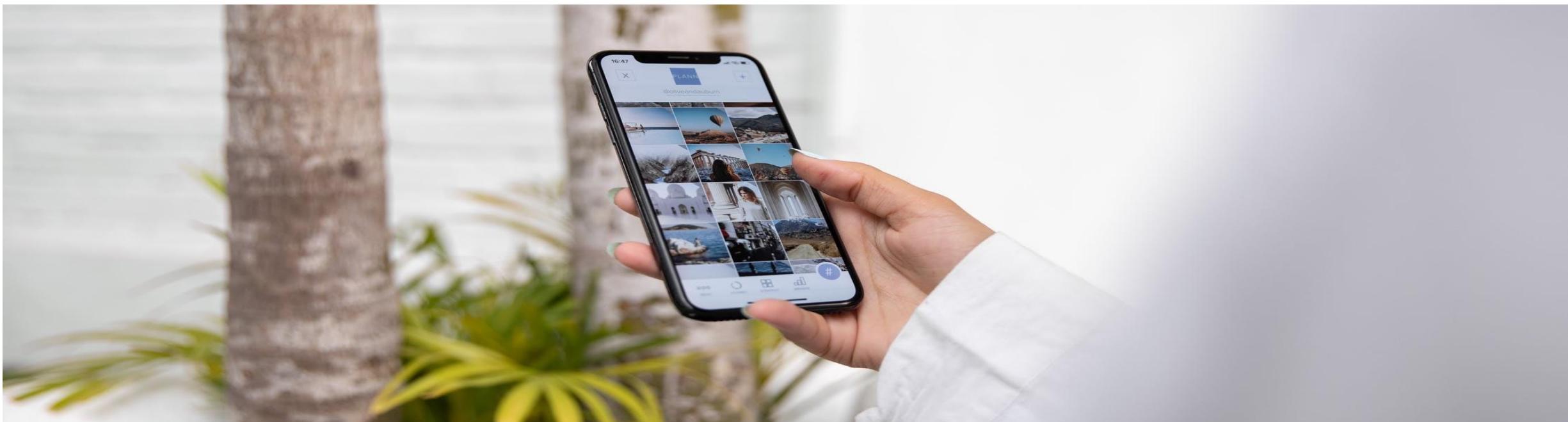


**85.37%**  
PRICE AS % OF VALUE

VALUATION YEAR

# FY2018

January – December 2018



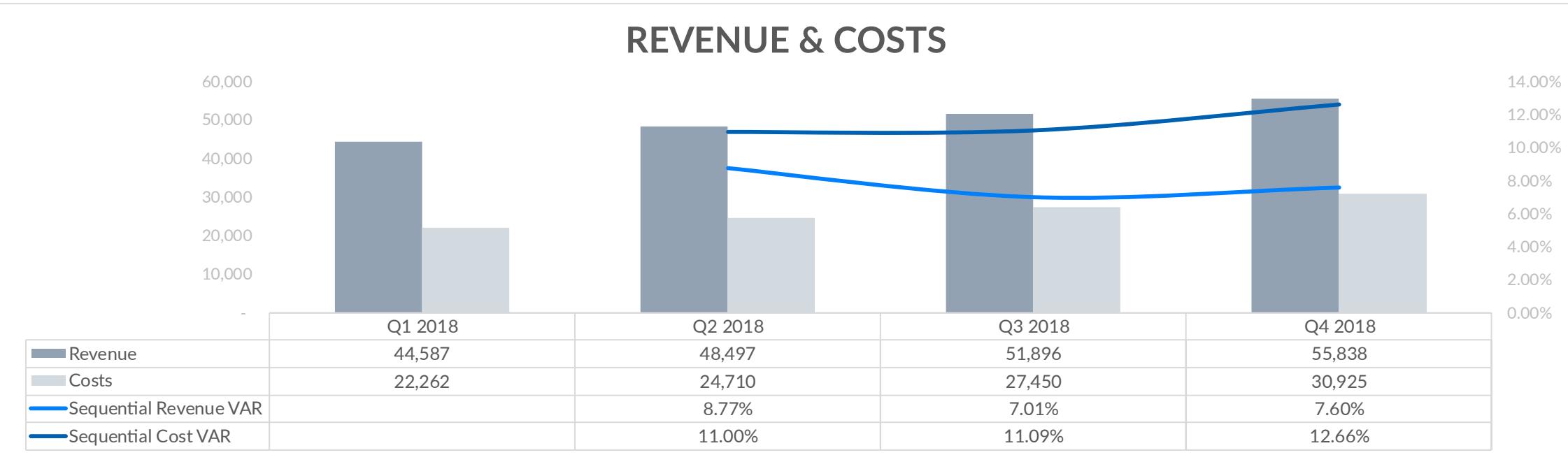


# General Narrative

- ∞ As concerns about privacy and security continue to remain at the forefront of the public's mind, Facebook has shifted its focus towards these areas by investing more resources towards them, alongside its efforts to fuel growth.
- ∞ Private messaging and stories are fueling engagement growth on Facebook, becoming people's primary communication methods, and offering new monetization opportunities that the company plans to leverage.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Facebook's revenue has had a 5-year CAGR of 45.48%, primarily driven by News Feed. To maintain growth, Facebook is expanding in emerging markets, creating new ad surfaces, and exploring revenue streams through messaging and hardware like Oculus Go and Portal. However, as Facebook faces saturation in mature markets and increased scrutiny over public scandals, this growth rate is expected to decrease, accompanied by regulatory challenges.

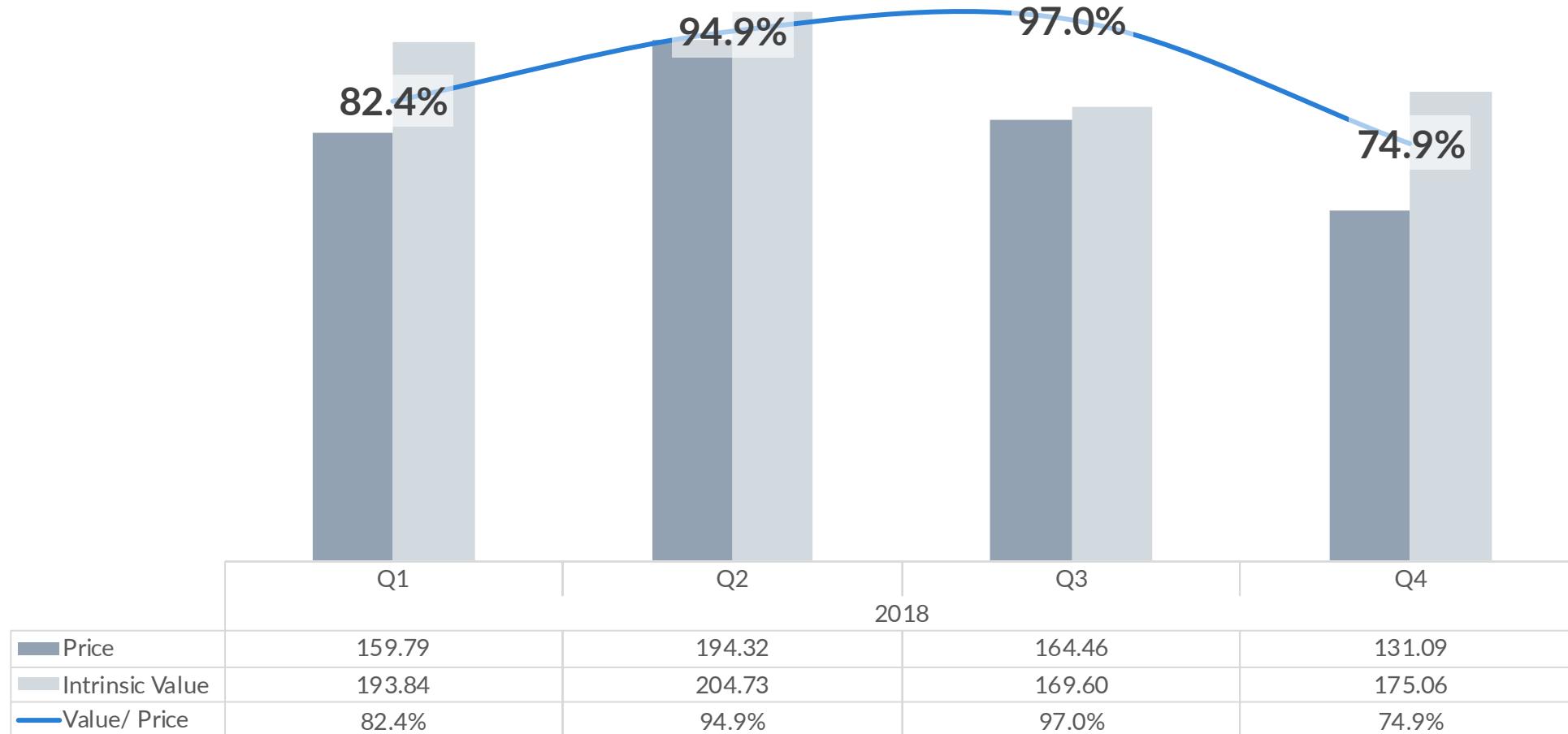
Costs has increased at a 5-year CAGR of 42.63% . To sustain growth and prioritize user privacy, the company plans to invest simultaneously in its future as well as in security and privacy, which will cause short-term margin impacts. Additionally, expansion into new, less-monetized advertising spaces and geographies will contribute to lower margins.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ Messaging continues to grow. Click-to-Messenger ads continue to gain traction. Stories also grow as a new way of communicating, creating new space for ad inventory.
- ∞ The company faces backlash due to Cambridge Analytica scandal which leads to Mark Zuckerberg testifying at Capitol Hill.
- ∞ Some advertisers leave the platform but most stay as FB has the best advertising ROI in the market, with a better reach and results.
- ∞ FB invests in AI and in headcount in order to fight misinformation.
- ∞ Apple becomes a key competitor for FB in messaging as well as starts limiting what FB can do by removing some of its other apps from the App Store.
- ∞ Instagram and WhatsApp founders leave the company as they disagree with Mark Zuckerberg over independence and data management.
- ∞ Scandal continues as UK Parliament releases internal emails and FB's security is compromised through a cyberattack.

# Intrinsic Value vs Price





FISCAL YEAR  
**2018**

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# **Q4 Results**

October – December 2018

# Narrative | Segment Drivers

FY2018 | Q4

## Advertising (+38%)

13% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

22% increase in the number of ads delivered

Mobile advertising revenue was 92% of total ad revenue.

## Payments and Other Fees (+16%)

Decrease in Payment revenue from games played on PCs.

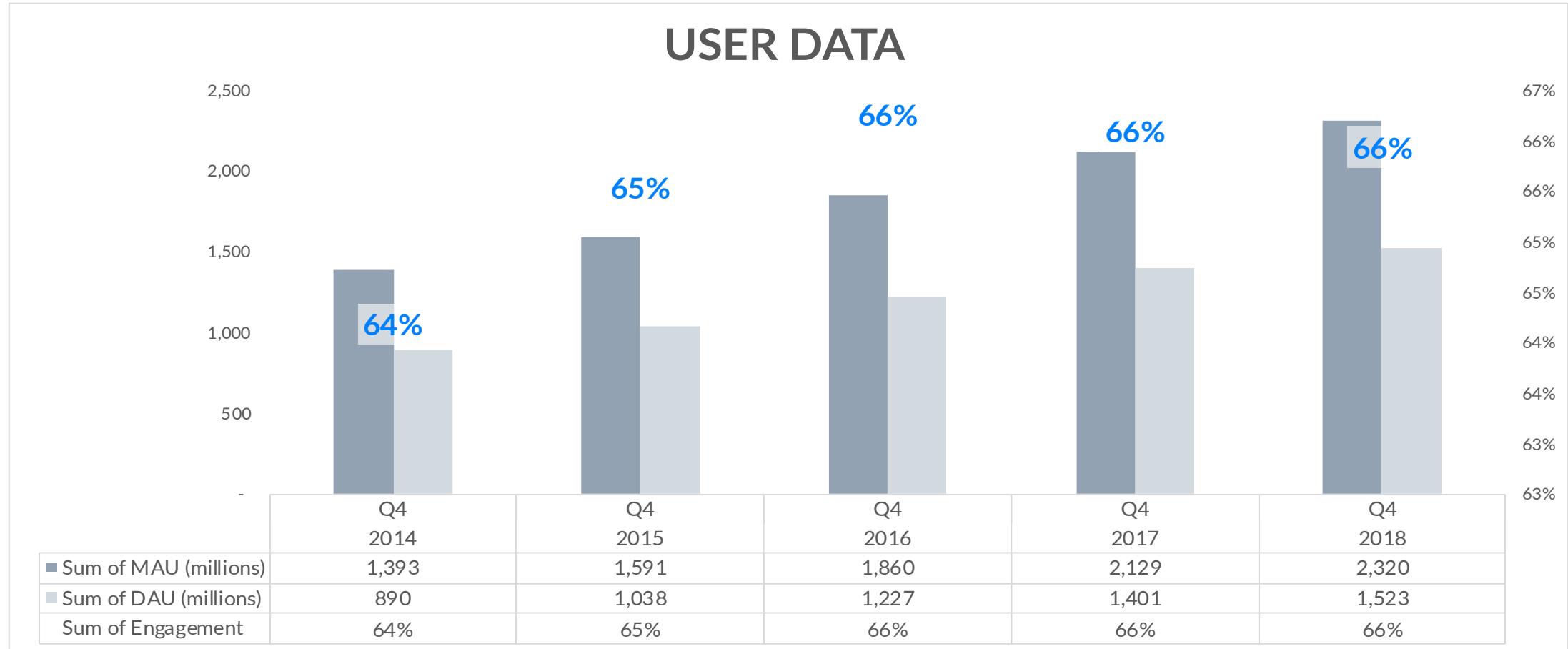
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2018 | Q4



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2018 | Q4

## COMPANY OUTLOOK

- FB is changing the way it builds products to focus on preventing harm.
- 4 priorities for 2019:
  - Continue making progress on major social issues facing the Internet and FB | Build new experiences that meaningfully improve people's lives | Keep supporting the millions of businesses (mostly SMB) that rely on FB services to grow and create jobs | Communicate more transparently.
  - Will build systems that proactively identify harmful content.
    - Currently working with experts to design the system and plan to start piloting in first half of 2019.
  - Working on making all FB products end-to-end encrypted.
  - Want to create new ways to share like Stories.
  - Want to rollout WhatsApp Payments in more countries.
  - Continue to make tools to help advertisers make ads adapted to FB products.
  - Launched ads in Messenger Stories.
  - Continue to invest in AI to make ads more relevant and effective. Also using AI to identify and review more quickly ads that might violate policies. See opportunity in using AI to keep people safe on FB & help businesses grow.
  - Expect family metrics to play a primary role on how FB talks about the company – will eventually phase out FB-only metrics.
  - Sales of Oculus GO and launch of Portal are contributing to revenue growth in Payments & Other fees.
  - Continue to expect revenue growth rate to decelerate. Expenses expected to grow +40-50%.

# Narrative | General Information

FY2018 | Q4

## OTHER RELEVANT INFORMATION

- Ad spend on Facebook Stories is growing, but marketers are still catching up, and Facebook CEO Mark Zuckerberg believes that people will soon be sharing more in Stories than feeds, leading to more opportunity for Facebook to serve ads. While the cost of 1,000 user impressions on Facebook Stories is currently lower than on the news feed, it is expected to catch up as it did on Instagram. To help clients, Facebook is offering Stories School education sessions and Ad Manager tool, which may encourage more buyers to purchase Stories ads on its other platforms.[147](#)
- Political campaigns are increasingly using Facebook advertising, with nearly \$300 million spent on Facebook ads by politicians in the US since May, and the platform's ability to match names to identities is one of its most useful targeting abilities, although the influence of Facebook in US elections is a collective-action problem with few politicians incentivized to act on reducing its influence.[148](#)
- Mark Zuckerberg denied any suggestion that Facebook ignored or overlooked warning signs of Russian activity on the platform. Zuckerberg's response to fake news and platform manipulation will take years and billions of dollars to fix, and he plans to introduce more independence and set up an independent body to hear appeals.[149](#)
- Mark Zuckerberg's new approach is causing unprecedented turmoil at Facebook, leading to tensions with his longtime chief operating officer, Sheryl Sandberg. Zuckerberg clashed with co-founders of Instagram and WhatsApp over location data and forced out Brendan Iribe over the future of Oculus VR.[150](#)
- Mark Zuckerberg pushed back against calls for him to step down as chairman and said he hoped to continue working with Sheryl Sandberg.[151](#)
- Six4Three sued Facebook over its decision to restrict access to user data, obtaining internal documents showing discussions about whitelist agreements.[152](#)
- Facebook considered charging companies for continued access to user data, potentially shifting away from its policy of not selling it.[153](#)
- The U.K. Parliament released 250 pages of internal Facebook emails that show Mark Zuckerberg and other executives pursuing hard-nosed tactics to stifle competitors and considering monetizing the massive amounts of data the company collected on its users.[154](#)
- Facebook's new advertising policies have unfairly burdened charitable organizations and small businesses and are easy for organized or well-funded actors to circumvent. Despite benevolent gestures, nonprofits and small businesses will continue to suffer under Facebook's arbitrary restrictions.[155](#)
- Facebook has disclosed that up to 1,500 apps may have had improper access to photos from Sept. 13 to Sept. 25, leading to consumer backlash and regulatory inquiries.[156](#)
- Mat Baxter, CEO of Initiative, an Interpublic Group of Cos. agency, wrote on his LinkedIn page that it was time to "take a collective stand" against Facebook.[157](#)
- Advocacy groups are urging the Federal Trade Commission to seek a breakup of Facebook Inc. as it weighs possible penalties against the social media company for privacy violations. Among other remedies, the FTC should require Facebook to unwind the acquisition of WhatsApp and Instagram and impose a significant fine. Facebook officials don't believe the FTC has the legal grounds to tie any violation of the consent decree to a breakup of the company.[158](#)
- Facebook's user base grew 10% YoY, but users are spending less time on the app, particularly those aged 18-24, which is a problem for its ad revenue model, but many are transitioning to Instagram, which is expected to grow revenue by over 60% in 2019.[159](#)
- Apple revoked Facebook's permission to maintain a research app that paid teens and young adults \$20 a month to track their data and activity across different apps and web browsers, citing a "clear breach" of its policies, while also shutting down a number of internal apps used by Facebook employees, causing disruptions, and Google also disabled its Screenwise Meter data-collecting app, which targeted users as young as 13 years old.[160](#)

# Assumptions

FY2018 | Q4

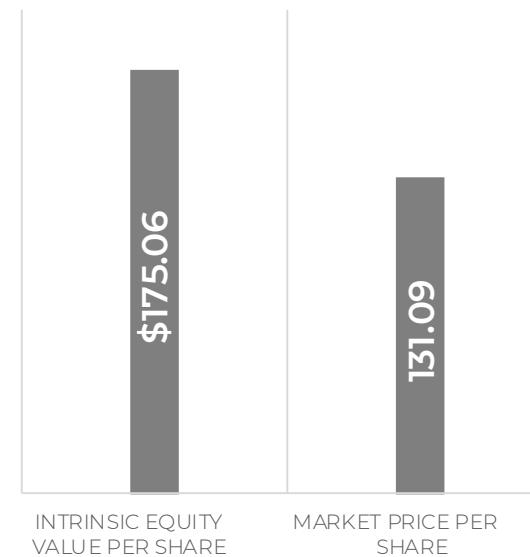
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$55,838	20.00%	2.69%	2.69%	<p>Facebook's growth is being driven by its focus on Stories and Messaging. Additionally, it plans to launch WhatsApp Payments to more countries, and sales of Oculus Go and Portal are contributing to growth in Payments and Other Fees.</p> <p>The company is also investing in AI to better target ads and help advertisers create more effective ones. However, there are factors that offset Facebook's growth potential. Issues with privacy and security continue to create distrust among users, and there is the potential for additional regulation that could limit the company's sales.</p>
OPERATING MARGIN	50.26%	20.00%	40.00%	40.00%	<p>Facebook's margin is expected to decrease as the company has committed to investing in privacy, in addition to its current growth investments. The implementation of GDPR in Europe has also affected Facebook's revenue, as it is one of its most profitable regions with higher ad prices. This trend may continue in other major markets, such as the US and Canada, as further regulations are put in place.</p>
TAX RATE	12.81%	12.81%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.72	RIR =	19.97%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	31.40%	Marginal ROIC =	17.34%	13.47%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.74%	8.47%	8.47%	Assuming 15% variation increment above current WACC in order to incorporate further risk due to potential regulation and/or other issues that stem from the Cambridge Analytica scandal.

# NUMBERS

## FY2018 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$67,006	44.21%	\$29,620	\$25,825	\$15,583	\$10,242
2	\$80,407	38.15%	\$30,678	\$26,748	\$18,700	\$8,048
3	\$96,488	32.10%	\$30,975	\$27,007	\$22,440	\$4,567
4	\$115,786	26.05%	\$30,164	\$26,299	\$26,928	-\$628
5	\$138,943	20.00%	\$27,789	\$24,229	\$32,313	-\$8,085
6	\$161,921	40.00%	\$64,768	\$54,633	\$32,064	\$22,569
7	\$183,094	40.00%	\$73,238	\$59,698	\$29,544	\$30,154
8	\$200,697	40.00%	\$80,279	\$63,160	\$24,563	\$38,597
9	\$213,044	40.00%	\$85,217	\$64,627	\$17,229	\$47,398
10	\$218,774	40.00%	\$87,510	\$63,882	\$7,997	\$55,885
Terminal year	\$224,659	40.00%	\$89,864	\$65,601	\$13,102	\$52,499

The Value		
Terminal value		908,438
PV(Terminal value)		371,378
PV (CF over next 10 years)		105,227
Value of operating assets	\$	<b>476,605</b>
- Tax due on trapped cash brought back		(480)
+ Cash & Marketable Securities		41,114
Value of firm	\$	<b>517,239</b>
- Debt value of lease		(17,487)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>499,751</b>
- Options outstanding		(134)
Value of Equity in Common Stock	\$	<b>499,617</b>
Number of shares (primary)		2,854
Intrinsic Equity Value per share	\$	<b>175.06</b>



**74.88%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2018**

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# **Q3 Results**

July – September 2018

# Narrative | Segment Drivers

FY2018 | Q3

## Advertising (+33%)

7% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

25% increase in the number of ads delivered

Mobile advertising revenue was 92% of total ad revenue.

## Payments and Other Fees (+1%)

Decrease in Payment revenue from games played on PCs.

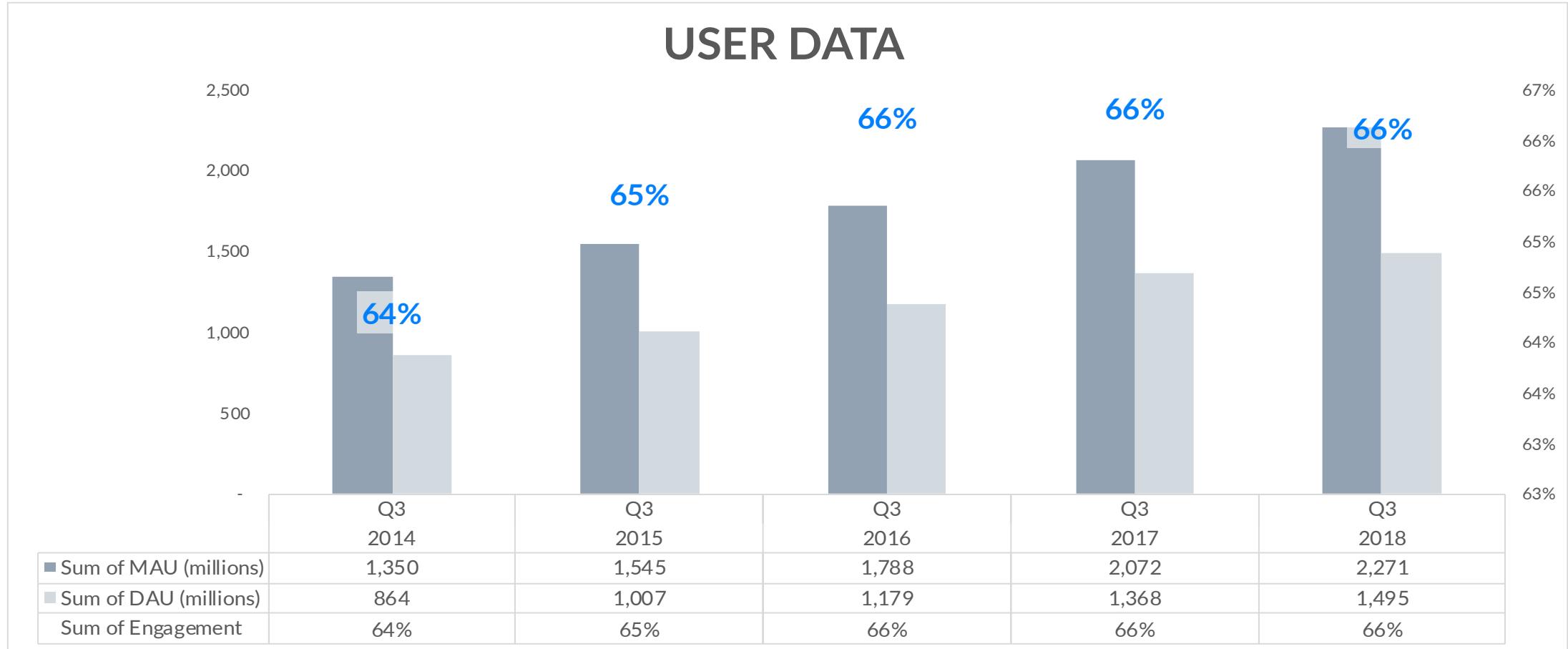
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2018 | Q3



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2018 | Q3

## COMPANY OUTLOOK

- The way people connect is shifting towards private messaging and stories.
- Message is a very competitive environment where FB's biggest threat is iMessage, especially in the US where the iPhone is strongest. In countries where there is a higher number of Andriod users, FB messaging services is preferred.
- See potential monetization of messaging through giving businesses additional paid tools to connect with their consumers.
- Stories have been accepted quickly, especially in IG and WA. Are in early stages of developing ad product for stories - currently low monetization.
  - Feed will drive most of FB growth over the next couple of years until stories become even a bigger driver.
- Video is growing dramatically across ecosystem of apps.
  - Watch is growing quickly but still behind YouTube. Still working to make it a unique people-centric experience.
- Continue to face increased safety and security threats.
- FB app overall is generally stable – may be close to saturated in developed countries while growing rapidly in developing countries.
- Increased use of FB Marketplace – now used by +800M people.
- FB had a 3<sup>rd</sup> party cyberattack in September that exploited a vulnerability in FB's code to steal user access tokens which was them used to access certain profile information from approximately 29M user accounts.

# Narrative | General Information

FY2018 | Q3

## OTHER RELEVANT INFORMATION

- WhatsApp, with a user base of 1.5 billion, plans to introduce ads in its Status feature and charge companies between half a penny and 9 cents for every message delivered to a potential customer.<sup>[133](#)</sup>
- Facebook has asked large US banks to share detailed financial information about their customers, including card transactions and checking-account balances, in an effort to offer new services to users and become a platform for buying and selling goods and services, but data privacy is a sticking point and banks are wary of the breadth of information being sought.<sup>[134](#)</sup>
- Apple is removing Facebook's data-security app Onavo from the Apple app store, as it violates data-collection policies, and Onavo allowed Facebook to collect and analyze users' activity to get a picture of how people use their phones beyond Facebook's apps.<sup>[135](#)</sup>
- Facebook bans a quiz app that could have exposed the data of up to four million users, which is the second app after Cambridge Analytica's personality-prediction app, to be banned as part of a larger investigation into data abuse by outside developers.<sup>[136](#)</sup>
- Facebook will use technology and human reviewers certified by the International Fact-Checking Network to identify and flag false content in videos and graphics and will also rely on user feedback and examine the history of users who share false content.<sup>[137](#)</sup>
- The European Union is pressuring Facebook to be more explicit about how it uses user data or face sanctions, as the EU takes regulatory actions aimed at big tech companies.<sup>[138](#)</sup>
- Instagram's co-founders clashed with Facebook executives over autonomy and growth tactics, leading to their departure, and their exit represents the second major exit by the founders of an acquisition that had become central to Facebook's growth.<sup>[139](#)</sup>
- Advertising executives are concerned that the departure of Instagram's founders could lead to unwelcome changes for the app and its appeal to marketers, with some worrying that Instagram may lose its distinct features that differentiate it from parent company Facebook. However, others believe that the platform is at a scale where founders are not essential for its success.<sup>[140](#)</sup>
- Facebook's vast financial resources and existing market share make it well-positioned to make virtual reality a mass-market technology, but its tarnished reputation due to controversies surrounding misinformation, election hacking, and user privacy may hinder its success in convincing consumers to adopt VR technology.<sup>[141](#)</sup>
- Hackers gained access to nearly 50 million Facebook accounts in a sophisticated attack that exploited three obscure flaws in its code, potentially compromising private messages and posts of users since July 2017.<sup>[142](#)</sup>
- Facebook helps connect remote parts of Uganda to the internet as part of a broader push to connect the approximately 3.8 billion people who are still without internet, in a long-term effort seen as a strategic investment with a goal to plug more of sub-Saharan Africa into the global economy.<sup>[143](#)</sup>
- Facebook launches Portal, a video-calling device with Amazon Alexa voice-assistant, featuring a camera that detects people in the room and zooms in and out, and a microphone that amplifies the speaker's voice; Facebook claims the features run locally, not on its servers, and that the device does not use facial recognition.<sup>[144](#)</sup>
- Small advertisers filed a lawsuit alleging that Facebook disseminated inaccurate metrics that overestimated the amount of time users were spending watching video ads, with Facebook denying the fraud claim and moving to dismiss it, while the incident fueled renewed calls for independent measurement and auditing of Facebook's internal ad data.<sup>[145](#)</sup>
- Facebook's fight against fake news is primarily powered by AI algorithms due to the sheer volume of content on the platform, but the company also hires domestic and international third-party fact-checkers, including Factcheck.org, which contributes to Facebook's understanding of sites that share false news, though on average they debunk less than one Facebook post per day, and the most important function of human fact-checkers is to provide feedback that helps machine learning become more effective.<sup>[146](#)</sup>
- Summary of The Facebook Dilemma in [Appendix](#).

# Assumptions

FY2018 | Q3

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$51,896	20.00%	3.05%	3.05%	Assuming lower than current 5YR CAGR as FB continue to grow both in regions and products where it monetizes at lower rates as the main FB app is close to saturated in its more mature markets. Also considering GDPR regulation and similar regulations that may rise in FB's mature markets such as US and Canada.
OPERATING MARGIN	52.09%	20.00%	40.00%	40.00%	Facebook's margin is expected to decrease as the company has committed to investing in privacy, in addition to its current growth investments. The implementation of GDPR in Europe has also affected Facebook's revenue, as it is one of its most profitable regions with higher ad prices. This trend may continue in other major markets, such as the US and Canada, as further regulations are put in place.
TAX RATE	21.54%	21.54%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.74	RIR =	22.84%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	30.44%	Marginal ROIC =	18.81%	13.35%	Expect Facebook to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.61%	8.35%	8.35%	Assuming 15% variation increment above current WACC in order to incorporate further risk due to potential regulation and/or other issues that stem from the Cambridge Analytica scandal.

# NUMBERS

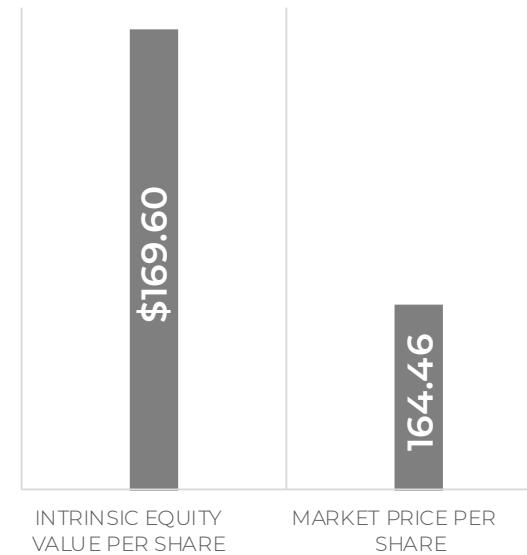
## FY2018 | Q3

The Cash Flows

	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$62,275	45.67%	\$28,442	\$22,317	\$13,938	\$8,379
2	\$74,730	39.25%	\$29,334	\$23,017	\$16,726	\$6,291
3	\$89,676	32.84%	\$29,446	\$23,104	\$20,071	\$3,034
4	\$107,612	26.42%	\$28,429	\$22,306	\$24,085	-\$1,779
5	\$129,134	20.00%	\$25,827	\$20,265	\$28,902	-\$8,637
6	\$150,583	40.00%	\$60,233	\$46,603	\$28,804	\$17,800
7	\$170,490	40.00%	\$68,196	\$52,019	\$26,733	\$25,286
8	\$187,249	40.00%	\$74,900	\$56,314	\$22,506	\$33,808
9	\$199,308	40.00%	\$79,723	\$59,069	\$16,194	\$42,876
10	\$205,387	40.00%	\$82,155	\$59,973	\$8,163	\$51,810
Terminal year	\$211,651	40.00%	\$84,661	\$61,802	\$14,116	\$47,686

The Value

Terminal value	\$	899,207
PV(Terminal value)	\$	371,938
PV (CF over next 10 years)	\$	89,282
Value of operating assets	\$	<b>461,220</b>
- Tax due on trapped cash brought back		(401)
+ Cash & Marketable Securities		41,206
Value of firm	\$	<b>502,024</b>
- Debt value of lease		(14,382)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>487,643</b>
- Options outstanding		(258)
Value of Equity in Common Stock	\$	<b>487,385</b>
Number of shares (primary)		2,874
Intrinsic Equity Value per share	\$	<b>169.60</b>



**96.97%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2018**

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# **Q2 Results**

April – June 2018

# Narrative | Segment Drivers

FY2018 | Q2

## Advertising (+42%)

17% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

21% increase in the number of ads delivered

Mobile advertising revenue was 91% of total ad revenue.

## Payments and Other Fees (+23%)

Decrease in Payment revenue from games played on PCs.

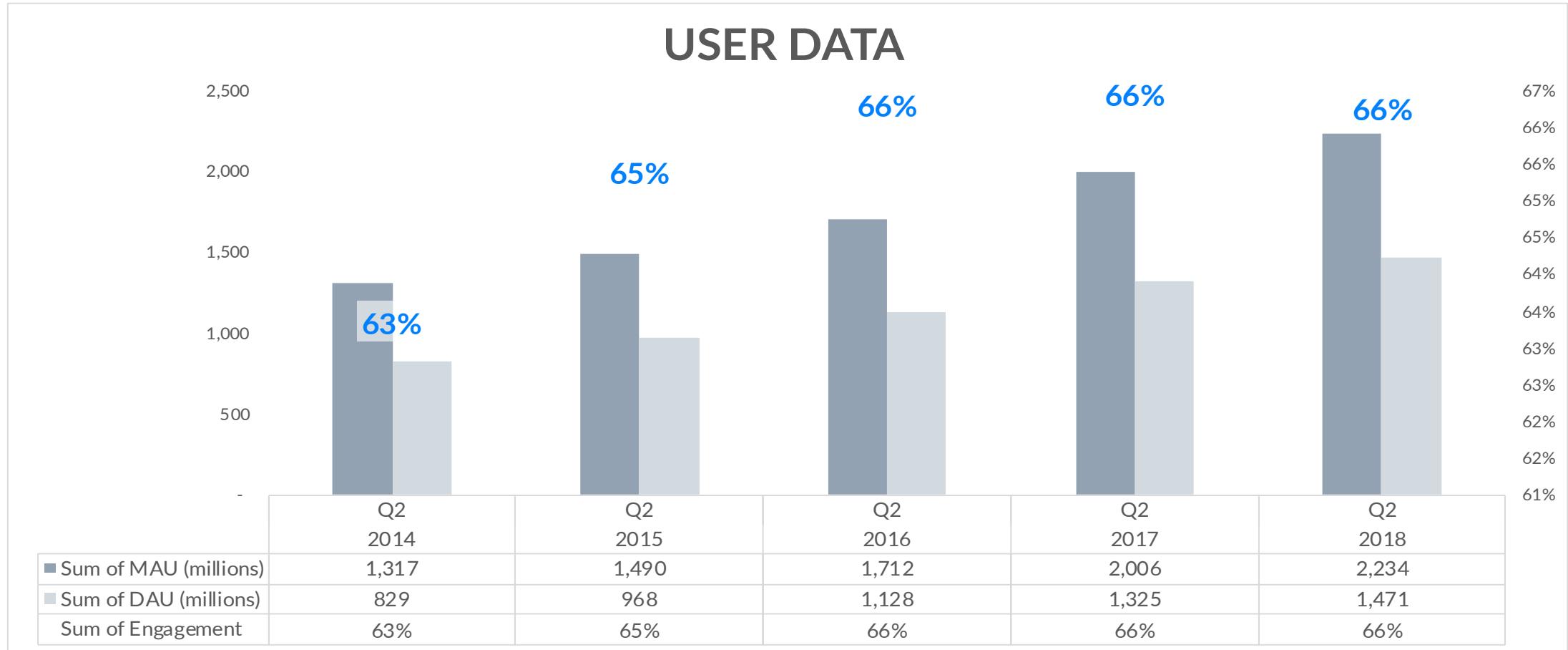
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2018 | Q2



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2018 | Q2

## COMPANY OUTLOOK

- Company starting to measure MAU overall – individuals, not active accounts, that use at least one of their apps. Currently at 2.5B
- Continue to focus investments in improving safety as it launched 2 important transparency tools – Anyone can see all ads run by a page, even if its not targeted to them | All political and issue ads will be labeled and archived so you can clearly see who paid for them.
- Fighting misinformation by getting rid of financial incentives for spammers to create fake news, stopping pages that repeatedly spread false news from buying ads and using AI to prevent fake accounts that generate a lot of problematic content from ever being created in the first place.
- Decline in MAU in Europe as GDPR policy is implemented.
- Investments in security will be on top of already planned investments.
- Launched IGTV: designed for mobile and vertical view.
- Seeing growth in Watch. Will roll out Watch Party.
- Stories continue to grow on all apps – have included new features like polls, questions and collaborative stories in groups and events.
- Currently testing payments in WhatsApp in India.
- Working on building new datacenters with 6 already functioning and 8 in plan. Are using AI in global community operations team to fight spam, harassment, hate speech and terrorism across all apps.
- Developing tools to make ad creation easier and more adaptable to mobile first formats like stories.

# Narrative | General Information

FY2018 | Q2

## OTHER RELEVANT INFORMATION

- Facebook is launching a dating feature for its 200 million single users, with separate dating profiles and privacy in mind, using existing data to help match users based on interests, events and groups, and without showing ads.<sup>[120](#)</sup>
- Facebook's employee data policies allow them to opt-out of certain data collection and give them greater control, creating an unfair advantage over users, highlighting the need for transparency and consistency in Facebook's privacy and data security approach.<sup>[121](#)</sup>
- Facebook has reshuffled its management team to better manage its products and services, including Instagram, Messenger, and WhatsApp, and address challenges such as user data handling and social media's role in politics, with new executives appointed to head the core Facebook app, Instagram, and Messenger, as well as product and marketing.<sup>[122](#)</sup>
- Facebook is investing more in combating bad content, including hiring thousands of new moderators and using AI, in response to criticism over the spread of fake news and hate speech on the platform, although experts say fundamental changes are needed to fully solve the problem.<sup>[123](#)</sup>
- Facebook is in talks with media outlets to produce news programming for its video platform Watch, which is expected to include live and recorded news segments and coverage of breaking news events, as part of its efforts to increase engagement and compete with traditional TV news outlets, with financial incentives offered to the media outlets.<sup>[124](#)</sup>
- Facebook is getting rid of its Trending Topics feature, which has been controversial and criticized for promoting fake news and political bias and replacing it with a new section called "Breaking News," curated by a team of journalists from credible sources.<sup>[125](#)</sup>
- Apple introduces new features that compete with Facebook's social media platform, including group video chats, Screen Time, and privacy tools, as part of its broader effort to promote the healthy and productive use of its devices and challenge Facebook's impact on mental health and user data.<sup>[126](#)</sup>
- WhatsApp's co-founders, Jan Koum and Brian Acton, are leaving Facebook due to disagreements with CEO Mark Zuckerberg and COO Sheryl Sandberg over how to generate revenue from the messaging service, with tensions growing over data privacy and targeted ads.<sup>[127](#)</sup>
- Facebook allowed certain companies to access additional user data, including information on their friends, before changing its privacy policies in 2014, raising concerns about the company's handling of user data and fueling calls for greater regulation. Facebook has said it has ended most of the data-sharing partnerships, but some deals persisted until as late as this year.<sup>[128](#)</sup>
- Facebook is struggling to keep track of its user data and its use and is conducting a slow and difficult internal investigation to track down instances of data misuse, as many app developers that scooped up unusually large chunks of data are out of business and have little incentive to cooperate.<sup>[129](#)</sup>
- Facebook's growth is slowing, causing a significant drop in stock prices, as the company reported slower-than-expected revenue growth and warned of further declines due to privacy laws, less lucrative advertising products, and currency headwinds.<sup>[130](#)</sup>
- Facebook's revenue growth slowed, partly due to Europe's new privacy law, GDPR, which led the company to shut down a targeting feature, and while the company faces longer-term trends of slowing user growth and declining engagement, some advertisers are shifting their ad spend to Facebook's photo-sharing service, Instagram.<sup>[131](#)</sup>
- Facebook will remove misinformation that could cause violence by relying on local organizations to determine whether specific posts contain false information and could lead to physical harm, which raises questions about the criteria to choose the organizations and how to ensure their independence.<sup>[132](#)</sup>

# Assumptions

FY2018 | Q2

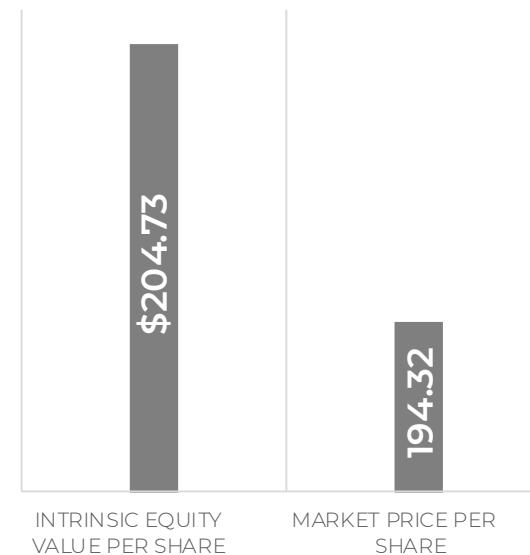
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$48,497	20.00%	2.85%	2.85%	Lowered growth as regulation such as GDPR negatively impact FB's future revenues. The privacy issues can expect to hinder further growth as other regions worldwide adopt stricter privacy measures. FB is currently also testing new products where it might have future potential of incremental ad inventory as well as entirely new business lines like WhatsApp Payments that it has to fully develop before it monetizes them at the same rate as its current products.
OPERATING MARGIN	54.16%	20.00%	40.00%	40.00%	Reduced margin as FB specifies that it will invest in privacy on top of their current investments for growth. FB lower revenue in Europe due to GDPR also affects margins as it was one of its most lucrative regions (higher prices per ad). This behavior can be assumed will be replicated in other big markets like US and Canada with further regulation.
TAX RATE	21.12%	21.12%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.76	RIR =	23.94%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	32.65%	Marginal ROIC =	18.79%	11.91%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.41%	6.91%	6.91%	Assuming 15% variation increment above current WACC in order to incorporate further risk due to potential regulation and/or other issues that stem from the Cambridge Analytica scandal.

# NUMBERS

## FY2018 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$58,196	47.33%	\$27,545	\$21,727	\$12,692	\$9,035
2	\$69,836	40.50%	\$28,282	\$22,309	\$15,231	\$7,078
3	\$83,803	33.67%	\$28,213	\$22,254	\$18,277	\$3,977
4	\$100,563	26.83%	\$26,984	\$21,285	\$21,932	-\$647
5	\$120,676	20.00%	\$24,135	\$19,038	\$26,319	-\$7,281
6	\$140,672	40.00%	\$56,269	\$43,723	\$26,166	\$17,557
7	\$159,156	40.00%	\$63,663	\$48,720	\$24,188	\$24,532
8	\$174,610	40.00%	\$69,844	\$52,629	\$20,222	\$32,406
9	\$185,576	40.00%	\$74,230	\$55,061	\$14,349	\$40,712
10	\$190,865	40.00%	\$76,346	\$55,733	\$6,921	\$48,812
Terminal year	\$196,305	40.00%	\$78,522	\$57,321	\$13,720	\$43,600

The Value		
Terminal value		1,074,788
PV(Terminal value)		468,715
PV (CF over next 10 years)		92,148
Value of operating assets	\$	<b>560,864</b>
- Tax due on trapped cash brought back		(414)
+ Cash & Marketable Securities		42,309
Value of firm	\$	<b>602,759</b>
- Debt value of lease		(11,252)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>591,507</b>
- Options outstanding		(397)
Value of Equity in Common Stock	\$	<b>591,109</b>
Number of shares (primary)		2,887
Intrinsic Equity Value per share	\$	<b>204.73</b>



**94.91%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2018**

---

# **Q1 Results**

January – March 2018

# Narrative | Segment Drivers

FY2018 | Q1

## Advertising (+50%)

39% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

8% increase in the number of ads delivered

Mobile advertising revenue was 91% of total ad revenue.

## Payments and Other Fees (-2%)

Decrease in Payment revenue from games played on PCs.

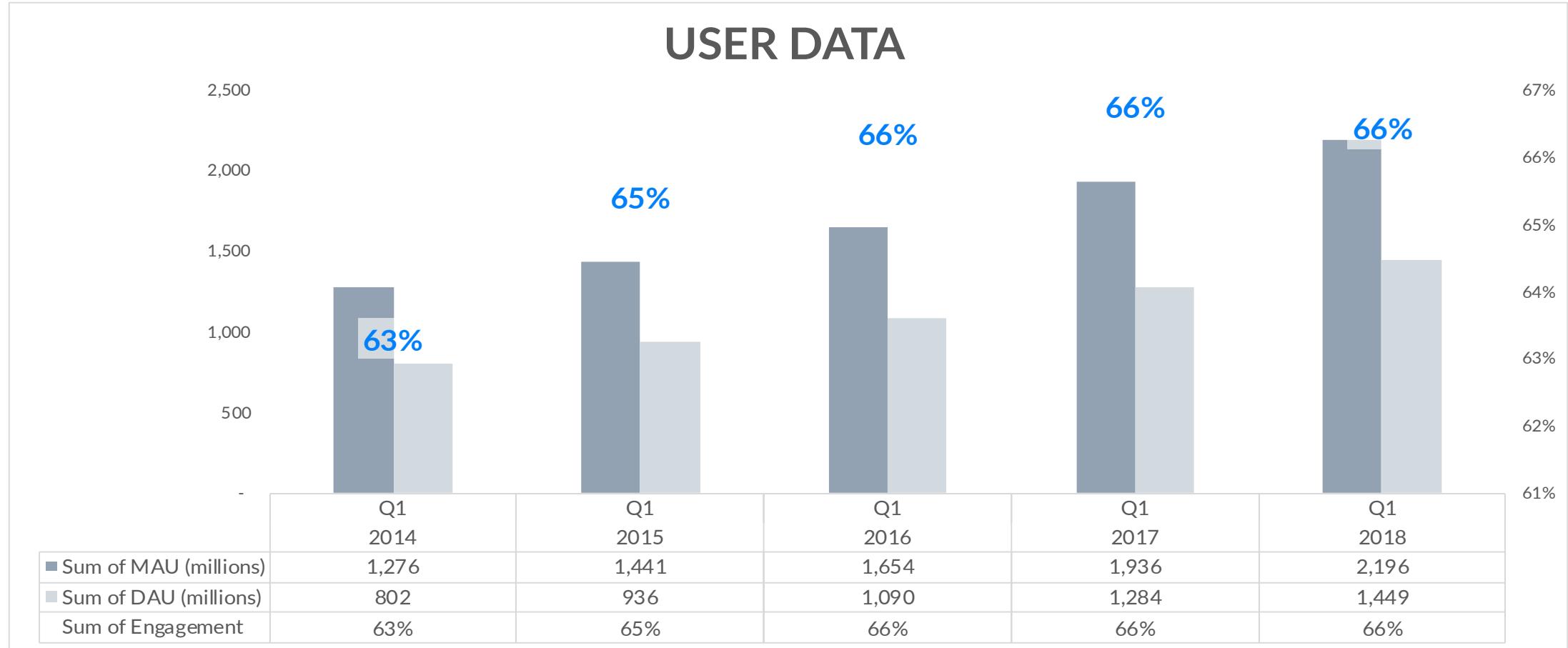
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2018 | Q1



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2018 | Q1

## COMPANY OUTLOOK

- Investments both in tech and people towards security, safety and privacy continue to be a top priority for the company.
- Political discourse protected by making ads more transparent and will require everyone running a political ad to be verified with a government ID.
- Continued shifting from passive consumption to encouraging meaningful interactions.
- Major focus on Groups – want to help people find meaningful groups within FB.
- Messaging continues to grow – trend towards sharing with smaller groups.
- Rolled out more personalized shopping experience in the News Feed.
- Continue to work with 3<sup>rd</sup> party verification to prove that FB is helping marketers achieve their goals.
- Anticipate revenue growth rates will decelerate throughout the year.
- Significant investments will be made focused on safety and security, content acquisition and long-term innovation efforts.
- Click-to-Messenger ads are gaining traction as more businesses use the platform to communicate directly with their customers.
- Continued growth in Stories – see it as a big part of future video sharing – and included them in all its platforms.
- In order to be more transparent, the company is providing users with the tools to see why they are seeing certain ads and block ads from specific advertisers.
- Are experimenting with mobile financial services through Messenger in order to provide businesses with additional tools.

# Narrative | General Information

FY2018 | Q1

## OTHER RELEVANT INFORMATION

- Facebook Inc.'s dominance in digital advertising powered another surge in quarterly profit, though it said users were starting to shave back their time on its platform as it tries to address critics' claims that the social network has harmful effects.<sup>[110](#)</sup>
- Facebook is facing backlash for allowing a data firm linked to the 2016 Trump campaign, Cambridge Analytica, to access user data without explicit permission, despite Facebook's demands to delete it, potentially affecting tens of millions of users.<sup>[111](#)</sup>
- Facebook CEO Mark Zuckerberg acknowledges that the company's investigation into third-party apps that collect data from its users will not uncover all instances of abuse, and it is impossible to know the full extent of data misuse, as many of the offending apps may no longer exist and it is hard to pin down how much of the data they collected was copied or distributed or where those copies might exist.<sup>[112](#)</sup>
- Marketers suspended advertising on Facebook in the wake of the Cambridge Analytica scandal, causing concerns that the scandal would damage trust of Facebook's users and lead to a drop in engagement and ad revenue; however, many advertisers remain on the platform, monitoring the situation to see whether the crisis sparks an exodus of Facebook users, and some expressed concern that more regulation of tech companies could limit advertisers' ability to target specific audiences on social platforms.<sup>[113](#)</sup>
- Mark Zuckerberg is expected to testify at a congressional hearing regarding Facebook's handling of user data and its relationship with Cambridge Analytica, part of a broader investigation into social media's role in the 2016 U.S. presidential election, though he seems somewhat reluctant to do so.<sup>[114](#)</sup>
- Large advertisers have shown a drop in spending on the platform, but Facebook's "long tail" of small to midsize advertisers are unlikely to disappear as they have few other options that generate the same level of return. Facebook still ranks highest in terms of return on investment among online advertising platforms according to a survey by RBC Capital Markets.<sup>[115](#)</sup>
- Facebook will require advertisers to go through an authorization process for hot-button political issues to prevent the spread of misinformation, will label election-related ads as "Political Ad" and make them searchable in a public archive, and require large Facebook pages to go through an authorization process to prevent fake accounts from spreading divisive content.<sup>[116](#)</sup>
- Mark Zuckerberg did not reject the possibility of a paid version of Facebook during his Senate testimony, leading to speculation that the social network may experiment with a subscription model, although he stated that he believes the free, advertising-supported version will remain the best option.<sup>[117](#)</sup>
- Tech workers fear poorly crafted or overly burdensome regulation from lawmakers who lack understanding of the internet, while pressure grows for better communication between government officials and tech executives in the face of greater government oversight, and concerns remain over Facebook's potential regulation as Congress questions CEO Mark Zuckerberg.<sup>[118](#)</sup>
- Facebook's data-harvesting practices are complex and opaque, with certain types of information being collected and used without users' knowledge or control, including the collection of phone contacts and the creation of "shadow profiles" for non-users.<sup>[119](#)</sup>
- Summary of Mark Zuckerberg's testimony to Congress included in [Appendix](#)

# Assumptions

FY2018 | Q1

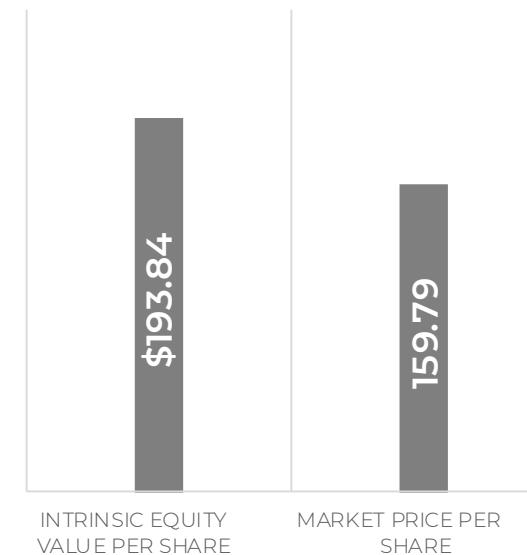
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$44,587	20.00%	2.74%	2.74%	Lower growth as FB faces uncertainty due to the Cambridge Analytica scandal where some advertisers have paused their spending in order to see the impact on users and engagement. The impact of this scandal is mainly impacting FB's mature markets so growth can still be expected from new and emerging markets to offset these challenges. Messages continue to be a strong focus for the company as Click-to-Messenger ads gain traction enabling businesses to interact more directly with consumers.
OPERATING MARGIN	55.31%	20.00%	40.00%	40.00%	Maintained at a lower level as FB expects to increase costs significantly in order to face issues concerning privacy and security as well as continuing to invest in their future. Increased for stable phase to its normal levels as company stabilizes.
TAX RATE	21.66%	21.66%	27.00%	27.00%	Converging to US Marginal Tax of 27%.
REINVESTMENT	Sales to capital ratio =	0.78	RIR =	23.26%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	33.69%	Marginal ROIC =	18.95%	11.78%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.28%	6.78%	6.78%	Assuming 15% variation increment above current WACC in order to incorporate further risk due to potential regulation and/or other issues that stem from the Cambridge Analytica scandal.

# NUMBERS

## FY2018 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$53,504	48.25%	\$25,814	\$20,222	\$11,468	\$8,754
2	\$64,205	41.18%	\$26,442	\$20,715	\$13,762	\$6,953
3	\$77,046	34.12%	\$26,290	\$20,595	\$16,514	\$4,082
4	\$92,456	27.06%	\$25,020	\$19,600	\$19,817	-\$217
5	\$110,947	20.00%	\$22,189	\$17,383	\$23,780	-\$6,397
6	\$129,306	40.00%	\$51,722	\$39,966	\$23,611	\$16,356
7	\$146,240	40.00%	\$58,496	\$44,576	\$21,777	\$22,798
8	\$160,344	40.00%	\$64,137	\$48,190	\$18,137	\$30,053
9	\$170,272	40.00%	\$68,109	\$50,447	\$12,768	\$37,678
10	\$174,937	40.00%	\$69,975	\$51,082	\$6,000	\$45,082
Terminal year	\$179,731	40.00%	\$71,892	\$52,481	\$12,209	\$40,273

The Value		
Terminal value		997,231
PV(Terminal value)		440,058
PV (CF over next 10 years)		87,611
Value of operating assets	\$	<b>527,669</b>
- Tax due on trapped cash brought back		(594)
+ Cash & Marketable Securities		43,956
Value of firm	\$	<b>571,031</b>
- Debt value of lease		(9,546)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>561,486</b>
- Options outstanding		(403)
Value of Equity in Common Stock	\$	<b>561,083</b>
Number of shares (primary)		2,895
Intrinsic Equity Value per share	\$	<b>193.84</b>



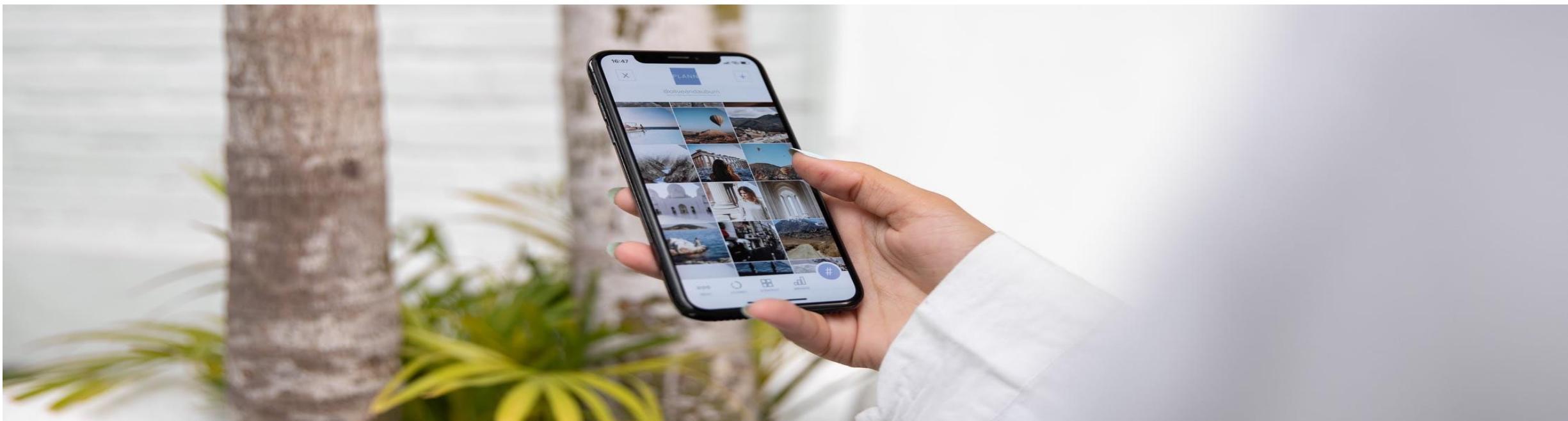
**82.44%**

PRICE AS % OF VALUE

VALUATION YEAR

# FY2017

January – December 2017



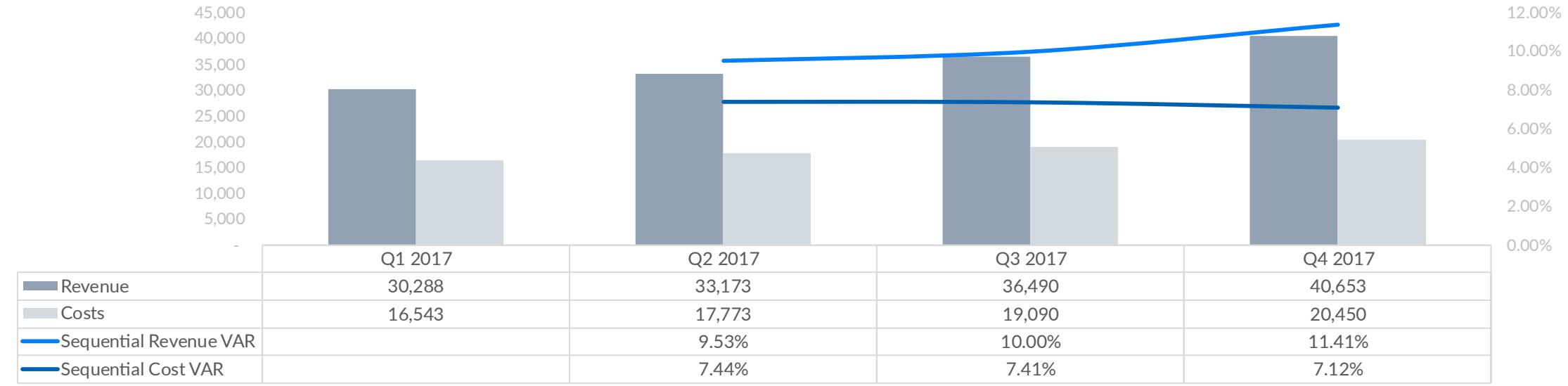


# General Narrative

- ∞ Controversy surrounding FB continues as its platform was abused by nation states and was used to spread false news as well as sensational/ polarizing content. Company starts to shift focus on policing content, creating meaningful interactions and working with fact checkers in order to keep its platform safe.
- ∞ Growth was mainly driven by emerging markets as ad inventory caps in FB's developed markets. Company continues focus on video and shifts focus on its messaging platforms in order to increase monetization opportunities.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5Y CAGR as of Q4 2017 was 50.75% as company's advertising revenue increase at a high speed mainly due to New Feed ads which were present in both mobile and PC platforms. Facebook has practically become a mobile company with 88% of its advertising revenue coming from this platform by Q4 2017. The company shifts focus to creating new ad spaces and new monetization opportunities through messaging in order to continue with future growth.

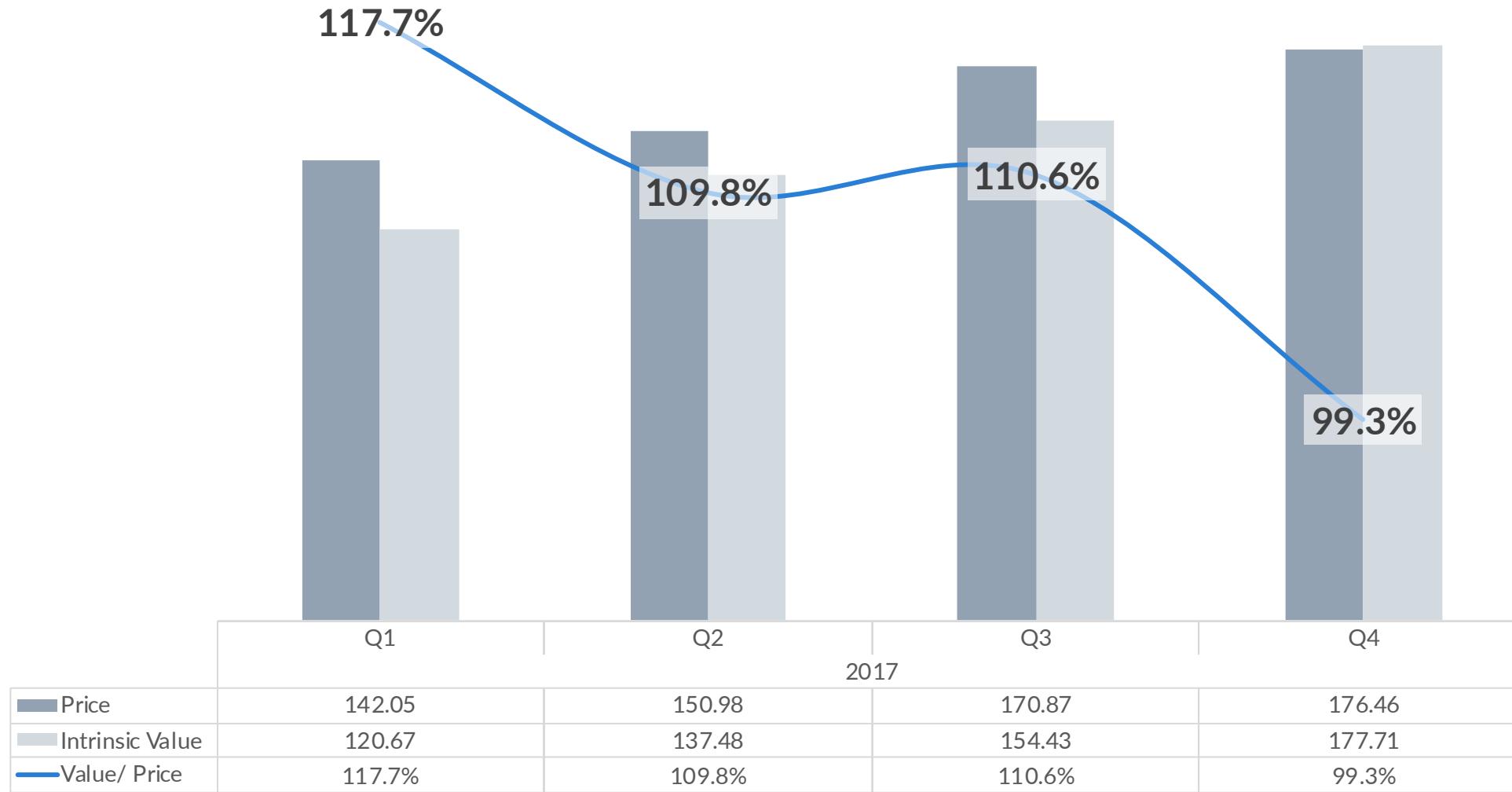
Costs 5Y CAGR as of Q4 2016 was 41.73% as big investments loads the company cost structure which directly impacts operating margins. FB continues to have strong investment priorities as it closes FY2017 to which they will add focus on security and policing its platforms on top, which can be expected to affect future margins and increase costs significantly in the near future.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ FB focus on hiring more staff and partnerships with fact checkers in order to better police its site against bad actors.
- ∞ Slow start to VR adoptions pushed FB to lower prices on its headset.
- ∞ FB rolled out ads in IG Stories, creating more ad inventory and future growth opportunities.
- ∞ FB pays for content as it launches its Watch Tab where it plans to compete with YouTube for longer form videos.
- ∞ Found Russian agency spent \$100K USD in ads on FB promoting divisive and political issues. Working with congress to control this.
- ∞ Cheap smartphones are enabling users to enter the internet in countries like India where video and voice become their main means of communication.
- ∞ Company plans to continue its investments in AI and Datacenters in order to make products more efficient and help police its platform.

# Intrinsic Value vs Price





FISCAL YEAR  
**2017**

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# Q4 Results

October – December 2017

# Narrative | Segment Drivers

FY2017 | Q4

## Advertising (+49%)

29% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

15% increase in the number of ads delivered

Mobile advertising revenue was 88% of total ad revenue.

## Payments and Other Fees (-6%)

Decrease in Payment revenue from games played on PCs.

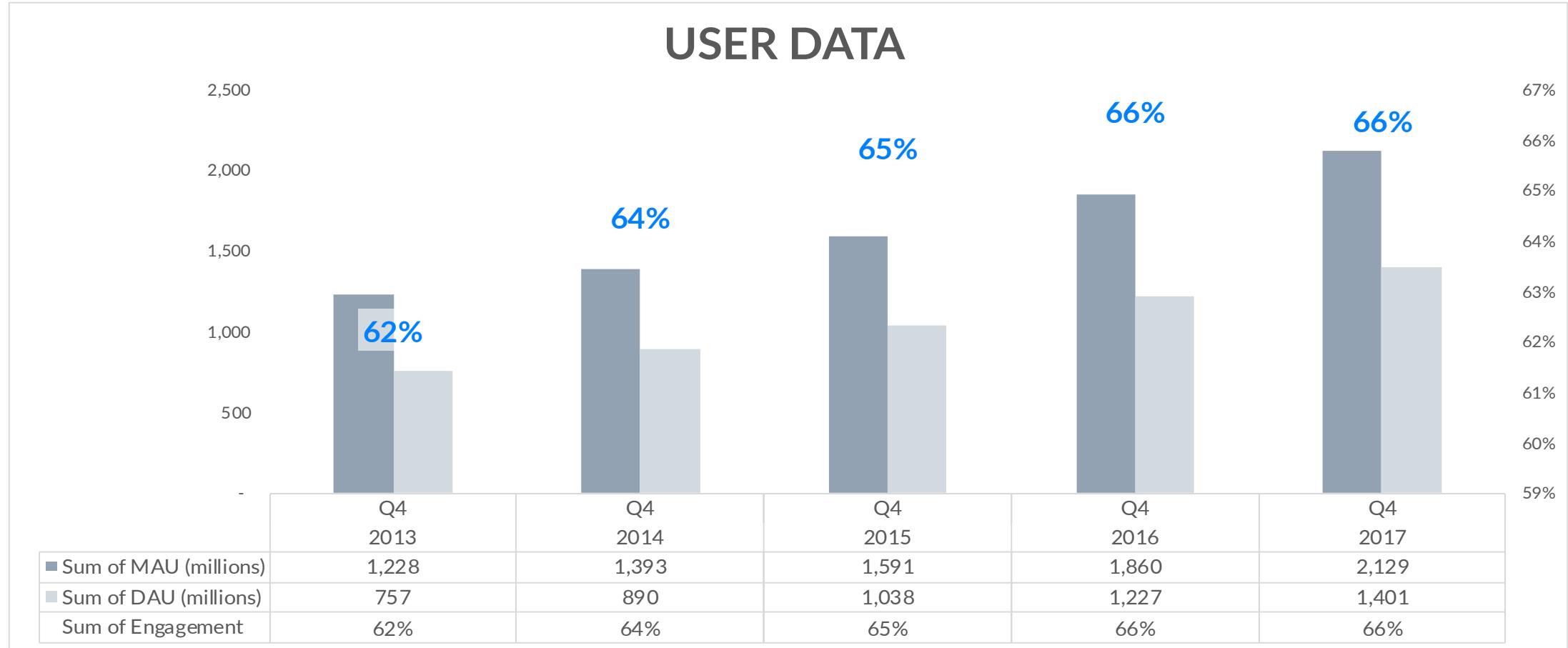
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2017 | Q4



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2017 | Q4

## COMPANY OUTLOOK

- FB has had a hard year as it has seen abuse including interference from nation states, the spread of false news, and sensational/ polarizing debate about the utility of social media.
  - Are making updates to the platform in order to encourage more interaction between people and help them connect vs focus on meaningless interactions.
- Focus on video continues with growth seen in stories and launch of Watch party. Also starting to invest in original content and will continue to do so in
  - Are investing in both people and technology (specifically AI) to prevent false news, hate speech and other abuse.
  - Focus of WhatsApp and Messenger to give businesses more ways to communicate with their customers.
  - Launched Community Boost Program: provides digital training for people in need of work and helps local businesses + non-profits get the most out of the internet.
  - Advertisers are increasingly developing mobile-first ads rather than simply taking their TV ads and placing them online – this increases quality and engagement.
  - Remain committed to the repurchase of stock.
  - Continued investments in datacenters, servers, office facilities and network infrastructure. Also expect costs to grow 45-60% in 2018 while growth in ad impressions is expected to be modest.

# Narrative | General Information

FY2017 | Q4

## OTHER RELEVANT INFORMATION

- Facebook is investing heavily in security, despite the impact on profitability, due to pressure from lawmakers and concern about malicious content, but its financial performance still depends on user trust.<sup>99</sup>
- Musical.ly is a social media and entertainment platform that allows users to create and share 15-second videos of themselves lip-syncing, dancing, or generally goofing off; it has become a cultural phenomenon with more than 200 million registered users, and is also embraced by the music industry, allowing 15-second clips to translate into revenue-producing streams and sales for artists.<sup>100</sup>
- Live-streaming apps are a growing source of income for musicians, with top performers earning six figures in fan tips on platforms such as YouNow and Live.ly, and the trend is spreading to other social media platforms such as YouTube and potentially Facebook, with Musical.ly Inc. planning to add virtual tips and gifts.<sup>101</sup>
- Chinese news and information site Beijing Bytedance Technology Co. has agreed to acquire Musical.ly, the social-media app popular among teens and tweens, for as much as \$1 billion, with plans to expand overseas and find ways to coordinate content between the two platforms.<sup>102</sup>
- Facebook has trained its artificial intelligence software to identify extremist content from specific terrorist groups, boosting its ability to remove such content before it is flagged by users, but the social media giant faces difficulties in translating this to a wider range of extremist content, including white supremacist groups, hate speech posts and videos created by ISIS with a different appearance to avoid detection.<sup>103</sup>
- Facebook launches Messenger Kids, a chat and messaging app aimed at children aged between 6 and 12, which allows parents to approve contacts and control usage, however, experts raise concerns about safety and whether such young children are ready for social media access.<sup>104</sup>
- Facebook is changing its video-ad strategy to push publishers to create longer videos, while also testing six-second ads for Watch, potentially frustrating publishers and increasing costs, but aiming to offset slowing growth in news-feed ads and make the platform a content hub on par with YouTube.<sup>105</sup>
- Google and Facebook's dominance in digital advertising and control over news distribution threatens the marketplace of ideas and makes it less profitable to produce high-quality journalism, while also giving tech executives power to defund and block content they personally object to.<sup>106</sup>
- The world's largest record company has licensed its music to Facebook, paving the way for new revenue streams, especially from user-generated videos, while pressuring YouTube to clean up its act and Facebook aims to secure deals with other major recording companies and publishers.<sup>107</sup>
- Content moderators for tech giants like Facebook and YouTube are typically outsourced contractors, often experiencing little training and low pay, and limited benefits. Proper coping mechanisms are not provided to them even though they constantly deal with distressing content causing turnover to be high.<sup>108</sup>
- Instagram is increasingly resembling Facebook, with more ads, recommended posts, and features like direct messages showing users' activity, leading some to fear the two apps will become indistinguishable.<sup>109</sup>

# Assumptions

FY2017 | Q4

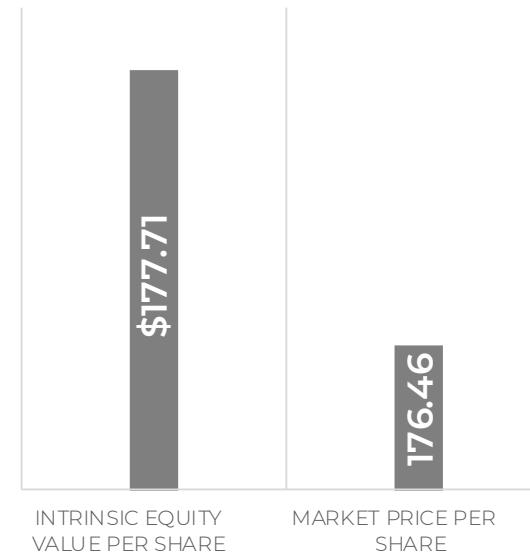
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$40,653	25.00%	2.40%	2.40%	Assumed lower growth rate than 5-YR CAGR as FB continues to grow in developing countries and they are still on their way to develop new revenue streams. Possible potential further advertising monetization through video as it develops Watch and further pushes stories. Also working on pushing advertisers to create mobile-first videos in order to increase engagement. Might face challenges in revenue growth as it changes its News Feed algorithm to focus more on meaningful conversation and the development of Groups. FB is also facing competition from apps like Musical.ly where younger generations like Gen-Z are flocking towards.
OPERATING MARGIN	56.80%	20.00%	40.00%	40.00%	Assuming lower operating margin as company focuses on security, controlling the spread of false news and sensational/ polarizing content regardless of its impact on company results. Continued focus on investments in datacenter and AI to make the company better and more efficient will also affect margins in the short-term.
TAX RATE	22.63%	22.63%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.77	RIR =	20.03%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	33.83%	Marginal ROIC =	14.82%	11.98%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.51%	6.98%	6.98%	Assuming 10% variation increase additional to current cost of capital due to the inherent risk at the time for FB as it faces scrutiny for its transparency and security. This will probably lead to regulation. Lowering to global industry levels for the stable phase as both the market and the company mature.

# NUMBERS

## FY2017 | Q4

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$50,816	49.44%	\$25,123	\$19,438	\$13,201	\$6,237
2	\$63,520	42.08%	\$26,729	\$20,681	\$16,502	\$4,179
3	\$79,400	34.72%	\$27,567	\$21,329	\$20,627	\$702
4	\$99,250	27.36%	\$27,155	\$21,010	\$25,784	-\$4,774
5	\$124,063	20.00%	\$24,813	\$19,198	\$32,230	-\$13,032
6	\$149,471	40.00%	\$59,788	\$44,182	\$33,004	\$11,179
7	\$173,327	40.00%	\$69,331	\$48,825	\$30,987	\$17,838
8	\$193,155	40.00%	\$77,262	\$51,726	\$25,756	\$25,970
9	\$206,522	40.00%	\$82,609	\$52,435	\$17,362	\$35,073
10	\$211,478	40.00%	\$84,591	\$50,755	\$6,438	\$44,317
Terminal year	\$216,554	40.00%	\$86,622	\$51,973	\$10,410	\$41,563

The Value		
Terminal value		906,990
PV(Terminal value)		418,211
PV (CF over next 10 years)		66,244
Value of operating assets	\$	<b>484,455</b>
- Tax due on trapped cash brought back		(2,533)
+ Cash & Marketable Securities		41,711
Value of firm	\$	<b>523,633</b>
- Debt value of lease		(6,865)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>516,768</b>
- Options outstanding		(514)
Value of Equity in Common Stock	\$	<b>516,255</b>
Number of shares (primary)		2,905
Intrinsic Equity Value per share	\$	<b>177.71</b>



**99.30%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2017**

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# **Q3 Results**

July – September 2017

# Narrative | Segment Drivers

FY2017 | Q3

## Advertising (+49%)

35% increase in the average price per ad

- ↑ Increase in demand for ad inventory
  - ↑ Increase in spend by existing marketers
  - ↑ Increase in number of marketers.
- 
- ↑ Mobile user growth & engagement
  - ↑ Number and frequency of ads displayed
  - ↓ Increased engagement with video content
- 
- ↑ Increase in News Feed relevance, quality and performance.

10% increase in the number of ads delivered

Mobile advertising revenue was 88% of total ad revenue.

## Payments and Other Fees (-5%)

Decrease in Payment revenue from games played on PCs.

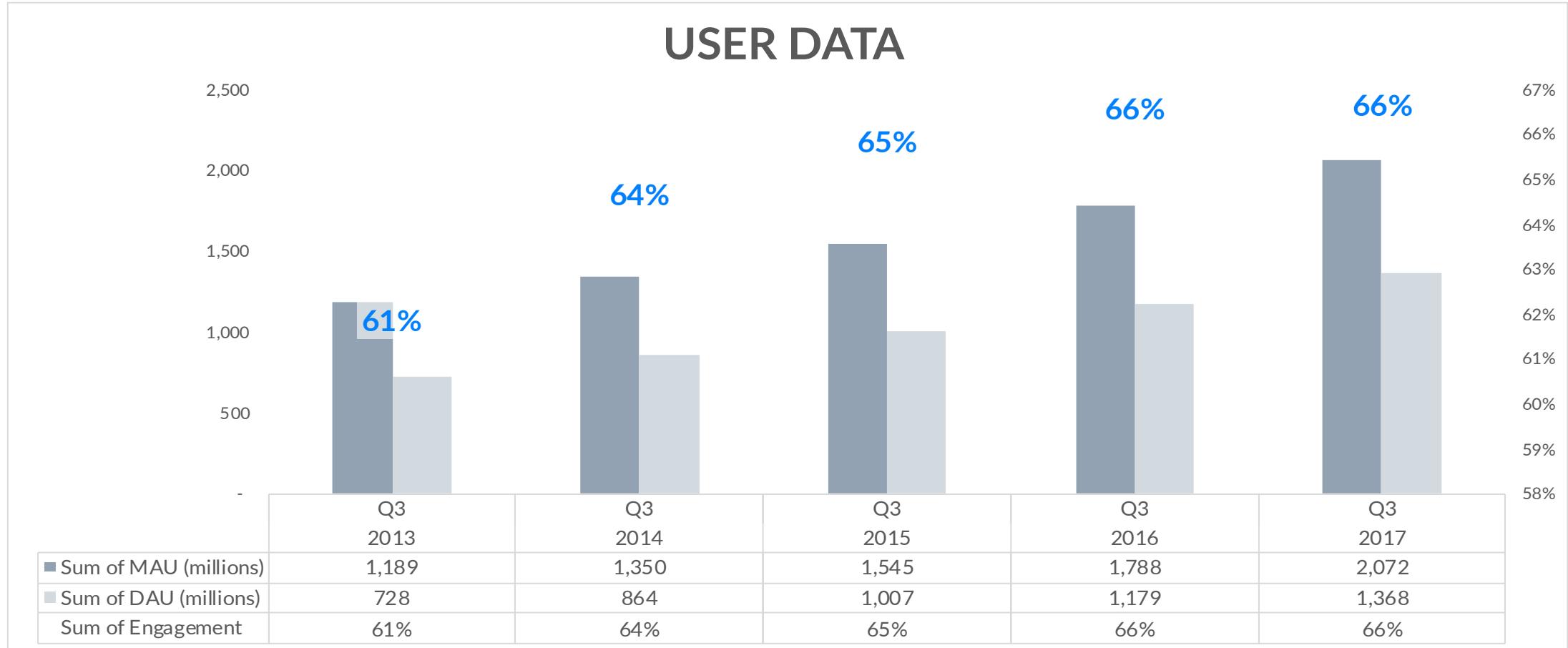
↓ Expected to continue to decline as PC use declines.

↑ Offset in part by the delivery of VR headsets and related platform sales.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2017 | Q3



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2017 | Q3

## COMPANY OUTLOOK

- Stock reclassification which included new Class C Stock which was going to be used as a one-time dividend payment was abandoned.
- User growth was driven by emerging markets.
- FB continues to face issues with content policing as it found that an influence operation probably based in Russia spent \$100K in ads promoting divisive political and social messages.
  - FB plans to strengthen its security measures to ensure that something like this does not happen again.
  - Plans to double staff that is currently dedicated to safety and security.
  - Currently building new AI to detect bad actors and content like terrorist propaganda.
- Launched Watch Tab – discover shows, follow creators, connect with people watching an episode and join groups with similar interest to form communities.
- Product changes to be focused on building communities, video and creating meaningful social interactions.
- Starting to test business features for people to connect with businesses through WhatsApp.
- Rolled out Marketplace to Canada and 17 countries in Europe.
- Opened new AI research lab in Montreal and in Paris.
- Launched Oculus One Headset – great for feeling like you're present with someone when you can't physically be together.
- Strongest areas in advertisement continue to be SMBs.
- Simplified tools for creating ads, making it easier for businesses of all sizes to advertise on FB.
- Working with Congress on new requirements for political advertising.
- Are increasing user transparency towards ads that are in the platform in general as well as those targeted to them.

# Narrative | General Information

FY2017 | Q3

## OTHER RELEVANT INFORMATION

- Facebook is rolling out "related articles" to limit the spread of false news, partnering with outside fact-checkers and adjusting its news feed algorithms to demote fake stories.<sup>89</sup>
- A new wave of online users, known as "the next billion," is entering the internet world for the first time through cheap smartphones, data plans, and intuitive apps, using voice activation and communicating with images instead of text, which incumbent tech companies must adapt to, with local competitors faster to adjust and produce tailored products, and companies are seeing a surge in data usage in emerging markets such as India thanks to Reliance Jio Infocomm's free unlimited 4G-speed data for six months.<sup>90</sup>
- Facebook is reportedly set to launch Bonfire, an app that would directly compete with Houseparty's video chatting platform, leading Houseparty to push even harder to expand its audience and beat Facebook's launch, but with big tech giants owning an increasing percentage of the mobile market, startups may find it difficult to grow fast enough to stay independent, and the deep pockets of companies like Facebook, Google, Apple, and Amazon make it harder for startups to compete, with Facebook alone having previously acquired Instagram for \$1bn and WhatsApp for \$22bn, while Google acquired Waze, and Amazon bought Quidsi, leading regulators to increasingly question how tech giants use their power.<sup>91</sup>
- Facebook used data from its acquisition of mobile-analytics company Onavo to gain early insight into rival companies, measure user behavior on their phones beyond Facebook's own apps and shape its product and acquisition strategy.<sup>92</sup>
- Facebook has identified 500 "inauthentic" accounts linked to Russia that spent \$100,000 on advertising, marking the first time the social media giant has acknowledged that Russian actors may have used its platform during the US presidential campaign; about one-quarter of the ads were geographically targeted, but more ran in 2015 than 2016.<sup>93</sup>
- WhatsApp co-founder Brian Acton has left the company as it prepares to monetize and introduce additional features for a fee, which he helped shape, but co-founder Jan Koum will remain at the company and Acton will not be replaced.<sup>94</sup>
- Russian-backed Facebook ads can have outsize reach due to Facebook's internal ad-auction system favoring ads that spark engagement and sometimes picking such ads over less-engaging ads that have a higher bid.<sup>95</sup>
- Facebook CEO Mark Zuckerberg announced a goal of getting one billion people into virtual reality, and unveiled Oculus Go, a \$199 stand-alone headset set to ship in 2018, among other planned changes to make VR more visible to users, under the leadership of former Xiaomi VP Hugo Barra.<sup>96</sup>
- Facebook acquires TBH, an anonymous polling app that has gained popularity among U.S. teens and will keep it as a standalone app while its creators become Facebook employees.<sup>97</sup>
- Facebook will test a feature that allows news publishers to sign up subscribers through Instant Articles, with a group of selected publishers on Android devices being the first to trial it; Facebook wants publishers to keep all revenue from the subscriptions, while Apple is insisting it gets 30%.<sup>98</sup>
- Facebook is set to spend more on federal lobbying than in any previous year, adding a Republican-led communications strategy firm and hosting focus groups with Washington insiders, to solicit advice on responding to the Russia ad controversy, and how to communicate with Republicans. Proposed messaging strategies appear to highlight Facebook's desire to fix its own problems rather than seek regulation. Despite mostly donating to Democrats, Facebook has adapted in recent years to a Republican-led Washington, with relationships with politicians from both parties.<sup>99</sup>

# Assumptions

FY2017 | Q3

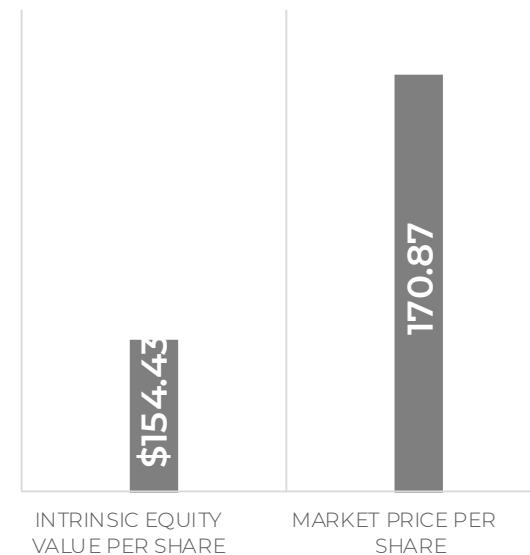
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$36,490	25.00%	2.33%	2.33%	Assuming lower than actual growth phase as FB continues to grow in countries where it monetizes at a lower level. Cheap smartphones are driving the growth in emerging markets where people lean heavily on video and voice in order to experience the internet for the first time. FB's tools tailor well to these new users. Maintaining growth rate estimates due to launch of Watch Tab and FB Marketplace, both having the potential to increase engagement and create more space for ad inventory, especially in markets like US, Canada and Europe where FB monetizes at a higher rate. FB is also making the way to monetize WhatsApp and will continue pushing messaging as an additional income stream.
OPERATING MARGIN	56.34%	20.00%	40.00%	40.00%	Assuming lower operating margins due to increases in cost that can be expected from FB's focus on security as it plans to double its staff in this area. FB is also spending more on lobbying this year than it ever has before due to new potential regulations that are expected to rise as a cause of Russian interference on the US 2016 that has been uncovered.
TAX RATE	9.70%	9.70%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.75	RIR =	19.09%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	37.97%	Marginal ROIC =	13.13%	12.20%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.02%	7.20%	7.20%	Assuming 10% variation increase additional to current cost of capital due to the inherent risk at the time for FB as it faces scrutiny for its transparency and security. This will probably lead to regulation. Lowering to global industry levels for the stable phase as both the market and the company mature.

# NUMBERS

## FY2017 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$45,613	49.07%	\$22,384	\$20,213	\$12,222	\$7,990
2	\$57,016	41.81%	\$23,836	\$21,524	\$15,278	\$6,246
3	\$71,270	34.54%	\$24,614	\$22,227	\$19,097	\$3,130
4	\$89,087	27.27%	\$24,293	\$21,936	\$23,871	-\$1,935
5	\$111,359	20.00%	\$22,272	\$20,111	\$29,839	-\$9,728
6	\$134,149	40.00%	\$53,660	\$45,203	\$30,535	\$14,668
7	\$155,522	40.00%	\$62,209	\$48,635	\$28,635	\$20,000
8	\$173,248	40.00%	\$69,299	\$49,979	\$23,750	\$26,229
9	\$185,140	40.00%	\$74,056	\$48,921	\$15,932	\$32,989
10	\$189,454	40.00%	\$75,782	\$45,469	\$5,780	\$39,689
Terminal year	\$193,868	40.00%	\$77,547	\$46,528	\$8,884	\$37,644

The Value		
Terminal value		772,578
PV(Terminal value)		342,532
PV (CF over next 10 years)		73,801
Value of operating assets	\$	416,333
- Tax due on trapped cash brought back		(2,055)
+ Cash & Marketable Securities		38,289
Value of firm	\$	452,567
- Debt value of lease		(3,281)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	449,286
- Options outstanding		(530)
Value of Equity in Common Stock	\$	448,756
Number of shares (primary)		2,906
Intrinsic Equity Value per share	\$	154.43



**110.64%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2017**

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# Q2 Results

April – June 2017

# Narrative | Segment Drivers

FY2017 | Q2

## Advertising (+47%)

24% increase in the average price per ad

↑ Increase in demand for ad inventory

19% increase in the number of ads delivered

↑ Demand of ad inventory - increase in marketers

↑ Mobile user growth & engagement

↑ Number and frequency of ads displayed

↓ Increased engagement with video content

↑ Increase in News Feed relevance, quality and performance.

Mobile advertising revenue was 87% of total ad revenue.

## Payments and Other Fees (-20%)

Decrease in Payment revenue from games played on PCs.

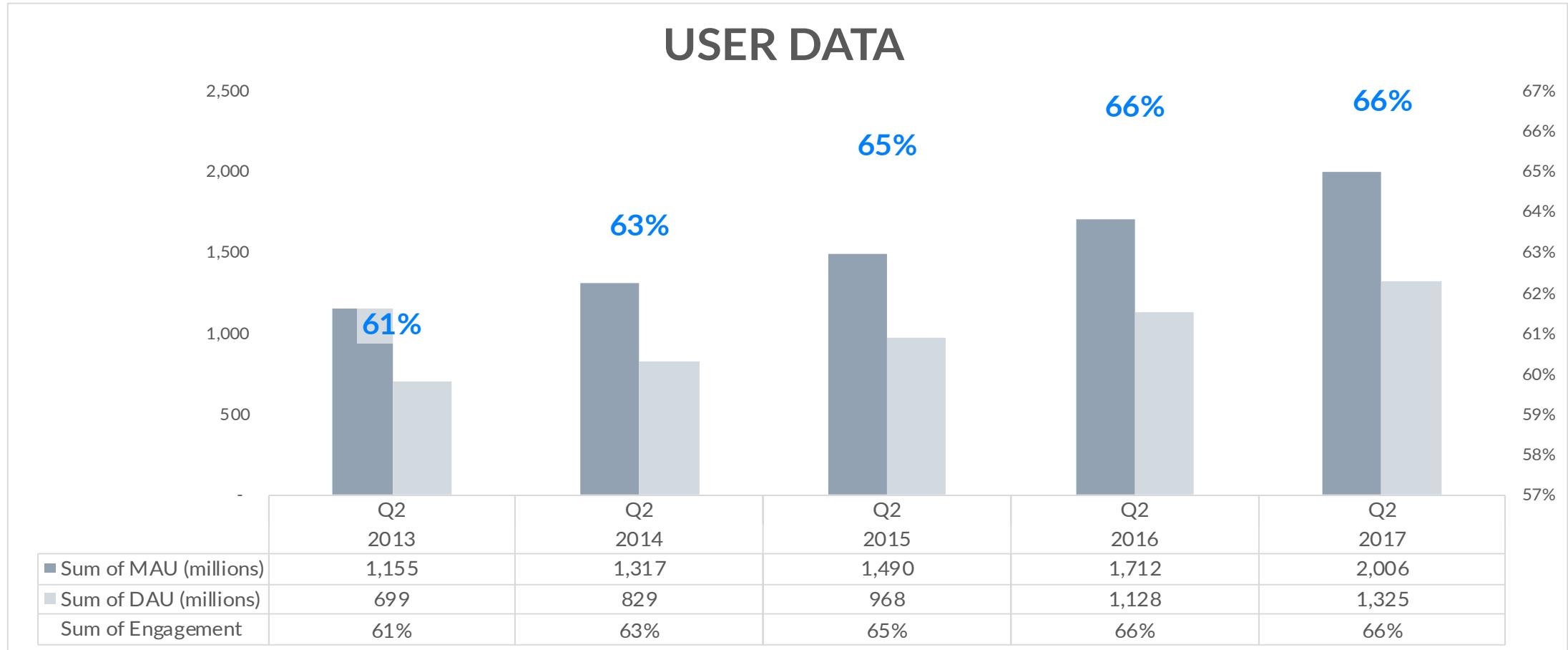
↓ Expected to continue to decline as PC use declines.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2017 | Q2



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2017 | Q2

## COMPANY OUTLOOK

- Facebook shifts company focus from making the world more open and connected to bringing the world closer together.
  - Believe that FB Groups will help build communities and are helping people discover the right groups for them using AI.
- IG + WA Stories now have +250M DAU – added ability to reply to stories with photos or videos + share a replay of live videos on IG.
- AI continues to deliver consistent improvements to many of FB's systems including News Feed, search ads, security & spam filtering, etc.
  - Expect AI to change the way FB does business
  - Helps flag content faster and fight against terrorism
  - Will be able to figure out what advertiser content contains and target it to the appropriate audience without the need for advertisers to do this manually.
- Video continues to be a strong focus on all FB platforms.
- Working to build business ecosystem around Messenger and WhatsApp – started showing ads in Messenger but still early on potential monetization strategy – MZ wants to see FB move a little faster in this aspect.
- Launched Live from Spaces which allows users to go Live with friends on different places.
- Continue to work with marketers to adopt mobile-first video – developing short-form snackable content is a big opportunity.
- Rolled out ads in Instagram Stories + added new ways for marketers to improve targeting and spend more efficiently.
- Focused on giving clients more options for 3<sup>rd</sup> party measurement and verification.
- Strong growth continues to come from Rest of the World and Asia Pacific, especially in India.
- Continue to expect that ad load will play a less significant factor in driving ad growth.

# Narrative | General Information

FY2017 | Q2

## OTHER RELEVANT INFORMATION

- Instagram presents incredible growth as it surges to 700M users. Specifically, IG Stories have 200M DAU, surpassing Snapchat. [81](#)
- Even though FB remains interested in entering the Chinese Market, its review process might not be sufficient to comply with censorship required by the government. FB announced a total of 7,500 content reviewers but experts claim that it would need to hire 20,000 reviews for video alone if it were to enter China. [82](#)
- Facebook is issuing refunds to some advertisers after discovering a bug in its system that led it to overstate clicks on marketers' websites showing the negative impact of FB's issues with transparency and measurement. [83](#)
- Facebook Inc. was fined €110 million (\$122.7 million) by the European Union's antitrust regulator on Thursday for providing incorrect information or misleading authorities over the acquisition of its messaging unit WhatsApp. [84](#)
- Facebook Inc. is paying professional videogame teams and others in the esports industry to post videos on the social network, part of a shift in strategy to deliver more-premium programming to the company's nearly two billion monthly users. [85](#)
- The new ad offering, called Audience Direct, will invite publishers to list video ad inventory for sale from across their properties, and to specify pricing. Marketers will then have the ability to log on to the system and to purchase ad space from specific publishers on a self-service basis, potentially streamlining the buying and selling process for both parties. Eventually, it is expected that FB would take a cut of the revenue on these transactions. [86](#)
- Researchers found that the more people use Facebook, the less healthy they are and the less satisfied with their lives. To put it baldly: The more times you click "like," the worse you feel. [87](#)
- Stock pickers say one of the biggest threats Google, Amazon and Facebook are likely to contend with is new regulations targeting online privacy and the way customer data is collected and used. Investors also say that, while antitrust concerns are a risk, especially in Europe, there is no way to predict their timing or impact. [88](#)

# Assumptions

FY2017 | Q2

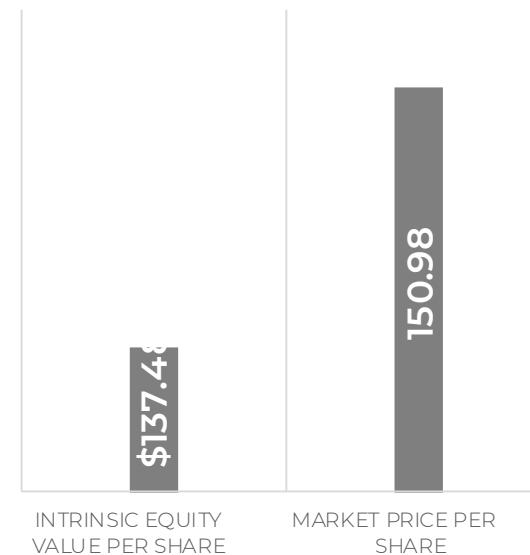
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$33,173	25.00%	2.31%	2.31%	FB continues to face challenges with ad growth rate and expects growth rate to decrease as new ad inventory is coming from regions where it monetizes at lower rates. The launch of ads in IG Stories provides the company with more potential inventory but it will take time to adopt and monetize at the same rate as News Feed. Video continues to be a strong focus as well as messaging where there is still potential to continue monetizing. AI will also play an important role both in News Feed, ads and controlling security and spam, making the experience more enjoyable and ad targeting more accurate.
OPERATING MARGIN	55.58%	25.00%	40.00%	40.00%	Assuming lower operating margins in growth phase as FB's revenue shifts towards regions and surfaces where they will monetize less. Also considering FB's strong push for creator content where they are willing to pay content creators in order to drive more engagement into their platforms.
TAX RATE	12.66%	12.66%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.72	RIR =	18.93%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	34.94%	Marginal ROIC =	13.06%	12.20%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.30%	7.20%	7.20%	Assuming current company WACC + adding 10% variation in order to consider additional risk from distrust of advertisers stemming from errors in measurements as well as new potential regulation which could restrict the market. Phasing to global WACC for stable phase as company and market mature.

# NUMBERS

## FY2017 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$41,466	49.46%	\$20,509	\$17,913	\$11,522	\$6,390
2	\$51,833	43.35%	\$22,467	\$19,622	\$14,403	\$5,220
3	\$64,791	37.23%	\$24,122	\$21,068	\$18,003	\$3,064
4	\$80,989	31.12%	\$25,200	\$22,009	\$22,504	-\$495
5	\$101,236	25.00%	\$25,309	\$22,105	\$28,130	-\$6,026
6	\$121,951	40.00%	\$48,780	\$39,937	\$28,780	\$11,157
7	\$141,370	40.00%	\$56,548	\$43,205	\$26,980	\$16,224
8	\$157,467	40.00%	\$62,987	\$44,680	\$22,363	\$22,316
9	\$168,250	40.00%	\$67,300	\$44,060	\$14,982	\$29,078
10	\$172,137	40.00%	\$68,855	\$41,313	\$5,400	\$35,913
Terminal year	\$176,113	40.00%	\$70,445	\$42,267	\$8,001	\$34,266

The Value		
Terminal value		700,346
PV(Terminal value)		305,024
PV (CF over next 10 years)		64,162
Value of operating assets	\$	<b>369,186</b>
- Tax due on trapped cash brought back		(1,580)
+ Cash & Marketable Securities		35,452
Value of firm	\$	<b>403,058</b>
- Debt value of lease		(3,283)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>399,775</b>
- Options outstanding		(503)
Value of Equity in Common Stock	\$	<b>399,271</b>
Number of shares (primary)		2,904
Intrinsic Equity Value per share	\$	<b>137.48</b>



**109.82%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2017**

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# Q1 Results

January – March 2017

# Narrative | Segment Drivers

FY2017 | Q1

## Advertising (+51%)

14% increase in the average price per ad

↑ Increase in demand for ad inventory

32% increase in the number of ads delivered

↑ Demand of ad inventory - increase in marketers

Mobile advertising revenue was 85% of total ad revenue.

↑ Mobile user growth & engagement

↑ Number and frequency of ads displayed

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (-3%)

Decrease in Payment revenue from games played on PCs.

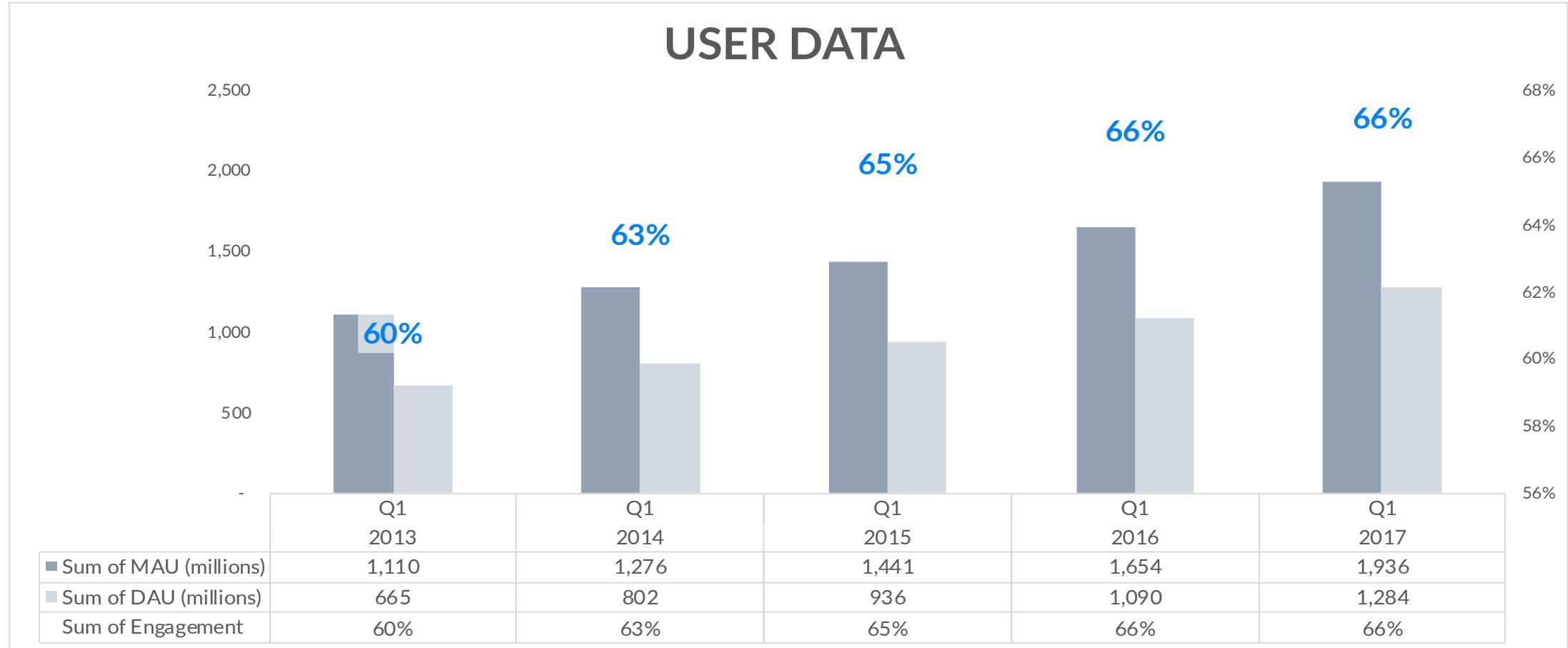
↓ Expected to continue to decline as PC use declines.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2017 | Q1



\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2017 | Q1

## COMPANY OUTLOOK

- Facebook has a continued focus on security and misinformation promising hire more staff to build new tools to keep people + work with fact checkers.
- Short-term strategy focused around the camera and video. See the camera as the first AR platform.
  - Creates shortcut to camera by swiping right + includes masks, frames & filters.
  - Expanded Stories to give people more ways to share (+200M DAU in IG Stories | +175M DAU in WhatsApp Status | Rolled out Messenger Day + FB Stories).
- Mid-term strategy focused on Live Video and Messenger.
- Long-term strategy focused on connectivity, VR and expanding datacenter infrastructure.
  - Launched FB spaces (first social VR Platform + released FB 360 app for Gear VR to experience 360 photos & videos).
  - +70M Businesses on Pages on a monthly basis of which +5M actively advertise on FB. Most of the businesses that advertise start by creating free pages initially.
- Continue creating tools and resources to make it easier for businesses to create ads optimized for mobile.
  - Currently helping advertisers use video to capture shoppers' attention – 30% of mobile shoppers said video is the best way to discover products.
- Launched full-screen sound-on ads on Instagram Stories.
- Introduced new & expanded verification partnership and committed to audits with the Media Rating Council.
- Important growth driven by product improvements, Internet.org and ongoing 3<sup>rd</sup> party promotional data plans in markets like India.
- Ad growth strongest in Rest of the World + Asia & Pacific where ads are less expensive.
- Continue to expect ad revenue growth rate to decrease as ad load plays a less significant role after mid-2017.
  - Video strategy also impacting growth as push for longer content in the news feed increases engagement but comes at the expense of impression growth.
  - Searching for other ad revenue streams aside from the News Feed (ex. Ad breaks in longer form content).

# Narrative | General Information

FY2017 | Q1

## OTHER RELEVANT INFORMATION

- Facebook is ordered to pay \$500M to ZeniMax Media Inc. after a jury found the social network's Oculus unit unfairly used ZeniMax code to build its headset.<sup>69</sup>
- User growth in Snapchat slows as Facebook implement Snap-like features in its apps as they both try to attract the same juicy demographic: people under 35.<sup>70</sup>
- The social-media giant announced a soon-to-come app that will allow users to stream videos in their news feed through set-top boxes such as Apple Inc.'s Apple TV and Amazon.com Inc.'s Fire TV as well as Samsung Electronics Co.'s internet-connected TVs.<sup>71</sup>
- Facebook Inc.'s photo-sharing app plans to double its engineering staff in New York this year to 150 people. In particular, it is looking for machine-learning experts, many of whom work for hedge funds or investment banks.<sup>72</sup>
- Mr. Zuckerberg outlined ambitions for the 13-year-old social network to play a larger role in tackling issues including terrorism, disease and climate change, alongside the work of governments, nonprofit organizations and other companies.<sup>73</sup>
- Facebook Inc.'s Oculus VR is dropping the price of its Rift virtual-reality headset by \$100, in a bid to spur sales after a rocky first year for the device. In surveys conducted by Oculus, consumers who tried the Rift cited its cost as the main reason they wouldn't buying the headset.<sup>74</sup>
- Facebook intensifies its hunt for TV-Like video programming signaling that it is willing to pay for some shows to push original programming, specifically weekly series with episodes lasting up to 30 minutes. Aside from licensing payments for some content, FB is also promising creators a cut of ad revenue and a prominent spot in the newly launched video tab in the FB mobile app. The News Feed might also feature short video clips or teaser trailers designed to drive users to long-form content.<sup>75</sup>
- The live-video rush left unanswered many questions with which Facebook is still wrestling, especially how to decide when violence on camera needs to be censored. According to a tally by The Wall Street Journal, people have used Facebook Live to broadcast at least 50 acts of violence, including murder, suicides and the beating in January of a mentally disabled teenager in Chicago.<sup>76</sup>
- Total digital ad spending in the U.S. will increase 16% this year to \$83 billion, led by Google's continued dominance of the search ad market and Facebook's growing share of display and mobile ads, according to eMarketer's latest forecast.<sup>77</sup>
- The commission suspects Facebook inaccurately claimed during the review in 2014 that it couldn't routinely match Facebook and WhatsApp user accounts—something the company started doing two years later when it began combining user data across the services.<sup>78</sup>
- Facebook Inc. said Palmer Luckey, the co-founder of Oculus VR who had been sidelined for several months after a series of scandals, is leaving the company.<sup>79</sup>
- Mastercard is adding a new payment option to Facebook Messenger, allowing customer to place online orders with just a few clicks.<sup>80</sup>

# Assumptions

FY2017 | Q1

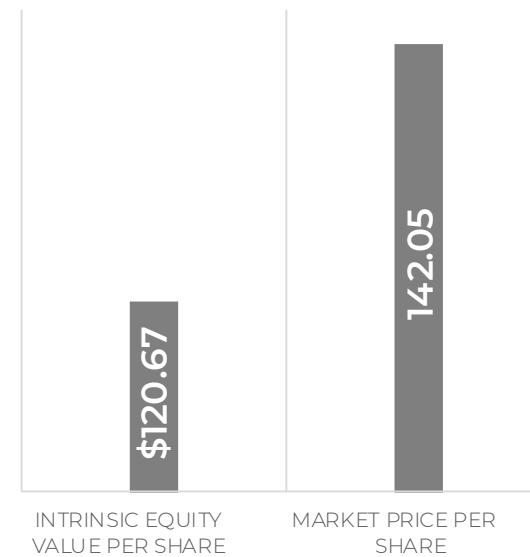
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$30,288	25.00%	2.40%	2.40%	FB faces challenges to continue with its aggressive growth rate as it caps ad load for mature countries. Even though it has still potential to continue growing in countries like India where internet plans are becoming more available, ads in these regions sell at a lower price which can decelerate growth. Growth could also be negatively impacted by governments who are grilling FB over privacy issues, misinformation distribution and lack of transparency. The increase in government policies could restrain FB's ability to obtain the information it needs to better distribute its ads. With Oculus off to a slower start than expected, FB's revenue is still very much dependent on ads, so having both advertisers and governments on their side is critical for their future.
OPERATING MARGIN	55.14%	25.00%	40.00%	40.00%	Assuming operating margin will reduce over time as company has specified that part of their growth strategy is to aggressively increase headcount which will cause costs to increase at a higher pace than revenue, causing operating margin to reduce. Another factor impacting margin is the high investment driven by the issues associated with safety and privacy which will require additional investments in the near future. Increased in stable phase as company becomes more mature and margin stabilizes.
TAX RATE	15.08%	15.08%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.69	RIR =	19.67%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	32.19%	Marginal ROIC =	12.77%	12.20%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.75%	7.20%	7.20%	Assuming company's current WACC which is higher than the market values + added 10% variation increasing risk as mistrust on FB spurs. FB has low debt. Placed global values for WACC for stable and terminal phase as the company matures and is expected to have lower risk.

# NUMBERS

## FY2017 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$37,860	49.11%	\$18,592	\$15,789	\$11,013	\$4,776
2	\$47,325	43.08%	\$20,388	\$17,314	\$13,767	\$3,547
3	\$59,156	37.05%	\$21,920	\$18,615	\$17,208	\$1,406
4	\$73,945	31.03%	\$22,943	\$19,484	\$21,510	-\$2,027
5	\$92,432	25.00%	\$23,108	\$19,624	\$26,888	-\$7,264
6	\$111,362	40.00%	\$44,545	\$35,608	\$27,533	\$8,075
7	\$129,135	40.00%	\$51,654	\$38,716	\$25,851	\$12,865
8	\$143,908	40.00%	\$57,563	\$40,276	\$21,487	\$18,789
9	\$153,866	40.00%	\$61,547	\$39,996	\$14,484	\$25,511
10	\$157,559	40.00%	\$63,024	\$37,814	\$5,371	\$32,443
Terminal year	\$161,341	40.00%	\$64,536	\$38,722	\$7,616	\$31,106

The Value		
Terminal value		647,644
PV(Terminal value)		274,109
PV (CF over next 10 years)		48,337
Value of operating assets	\$	322,447
- Tax due on trapped cash brought back		(1,192)
+ Cash & Marketable Securities		32,306
Value of firm	\$	353,560
- Debt value of lease		(3,272)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	350,288
- Options outstanding		(554)
Value of Equity in Common Stock	\$	349,734
Number of shares (primary)		2,898
Intrinsic Equity Value per share	\$	120.67



**117.71%**  
PRICE AS % OF VALUE

VALUATION YEAR

# FY2016

January – December 2016



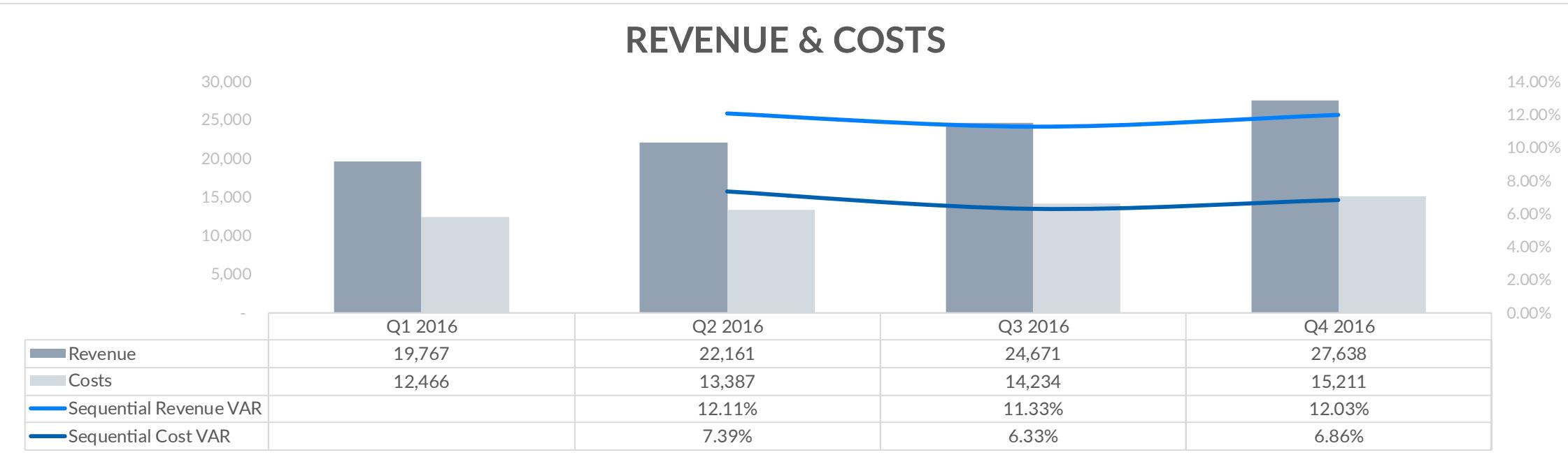


# General Narrative

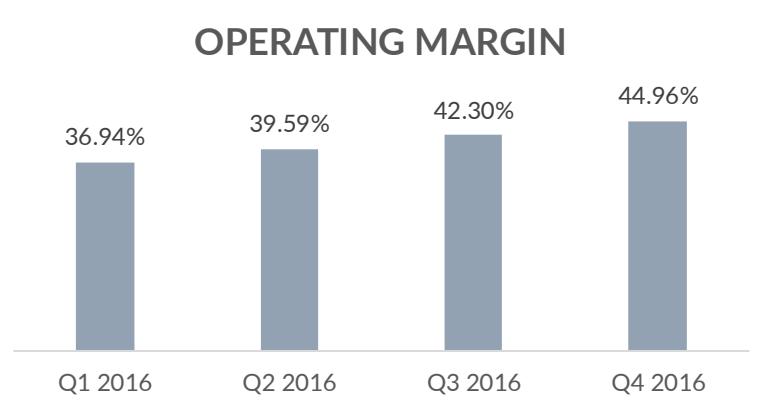
- ∞ Video becomes a megatrend increasing engagement which results in FB's launch of stories on all its platform as well as the push for live and making the camera more accessible in the app.
- ∞ FB sparks controversy as it faces issues with privacy and safety, more specifically dealing with promoting polarization during the 2016 elections and not controlling hate speech while also respecting freedom of speech. Controversy also came from of errors in metric measurement and lack of transparency in 3<sup>rd</sup> party measures which create trust issues with advertisers.

# Fiscal Year at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



Revenue 5Y CAGR as of Q4 2016 was 52.66% as company's advertising revenue increase at a high speed mainly due to New Feed ads which were present in both mobile and PC platforms. Facebook has practically become a mobile company with 84% of its advertising revenue coming from this platform by Q4 2016. This rise in mobile has led to other trends like video which is the current focus driving growth and engagement.

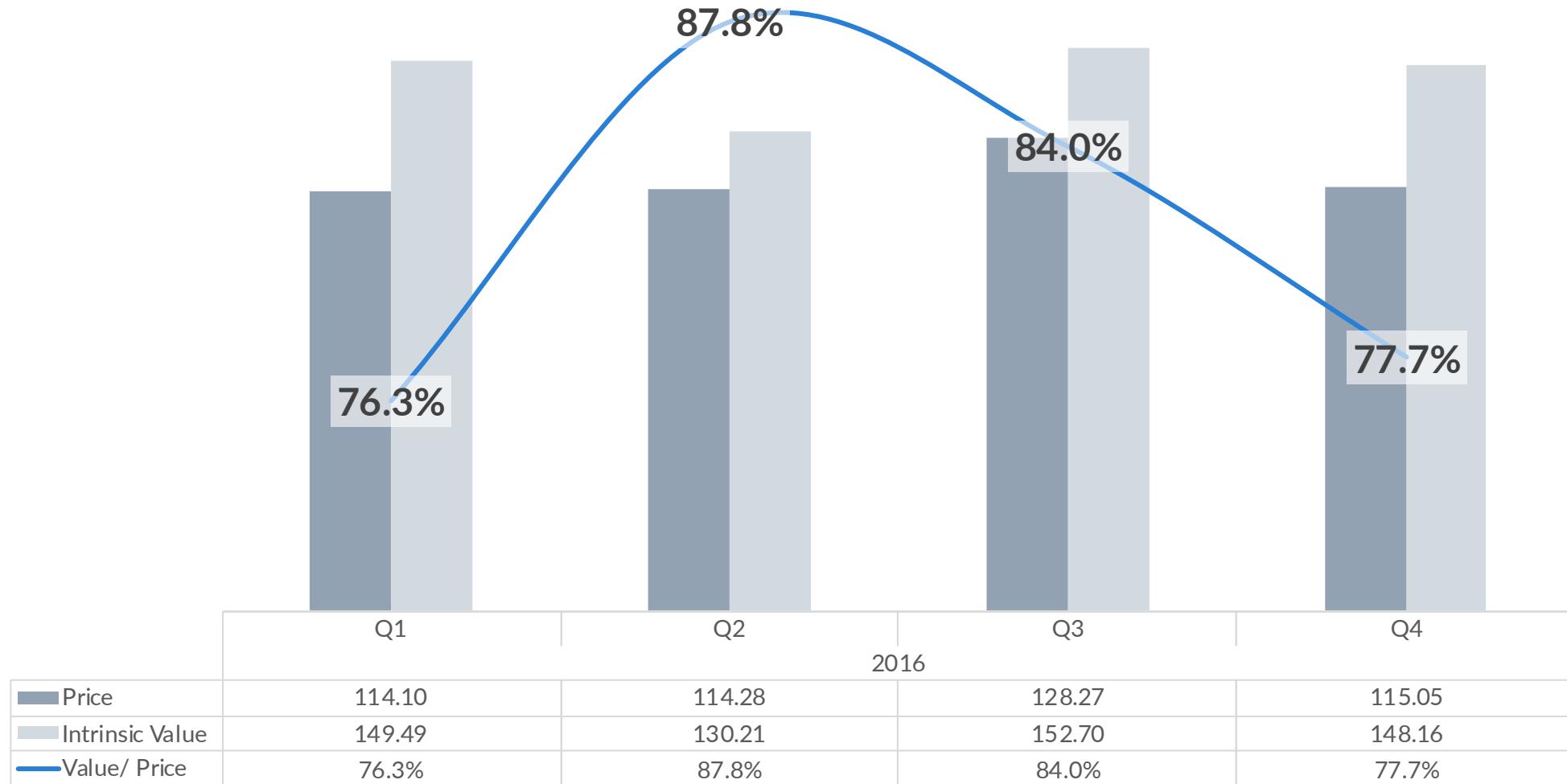
Costs 5Y CAGR as of Q4 2016 was 35.21% as big investments loads the company cost structure which directly impacts operating margins. FB continues to have strong investment priorities as it closes FY2016 while it also expects revenue growth rates to significantly decrease which would lead us to expect lower operating margins in the future.

# IMPORTANT MILESTONES

Reference: [Company History](#)

- ∞ FB pushes a video-first strategy which included important launches like Instagram Stories, video calling in WhatsApp and making the camera more accessible on the FB app.
- ∞ E-commerce growing as a trend in mobile where FB gets involved in the entire customer journey, from discovery of the product through ads to actual purchasing with the launch of FB Marketplace and the announcement of IG Shop button.
- ∞ Big growth opportunities in emerging markets where mobile use is increasing as better data plans emerge and more people can connect.
- ∞ Progress with AI, specifically with text, increasing engagement by showing users more relevant content and aiding in FB's safety issues by identifying more quickly dangerous content.
- ∞ Advances in VR with launch of Oculus Touch controllers which are considered the best in the market.

# Intrinsic Value vs Price





FISCAL YEAR  
**2016**

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# **Q4 Results**

October – December 2016

# Narrative | Segment Drivers

FY2016 | Q4

## Advertising (+57%)

5% increase in the average price per ad

↑ # of News Feed ads on mobile & PC

50% increase in the number of ads delivered

↑ Demand of ad inventory - increase in marketers

Mobile advertising revenue was 83% of total ad revenue.

↑ Mobile user growth & engagement

↑ Number and frequency of ads displayed

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (-11%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

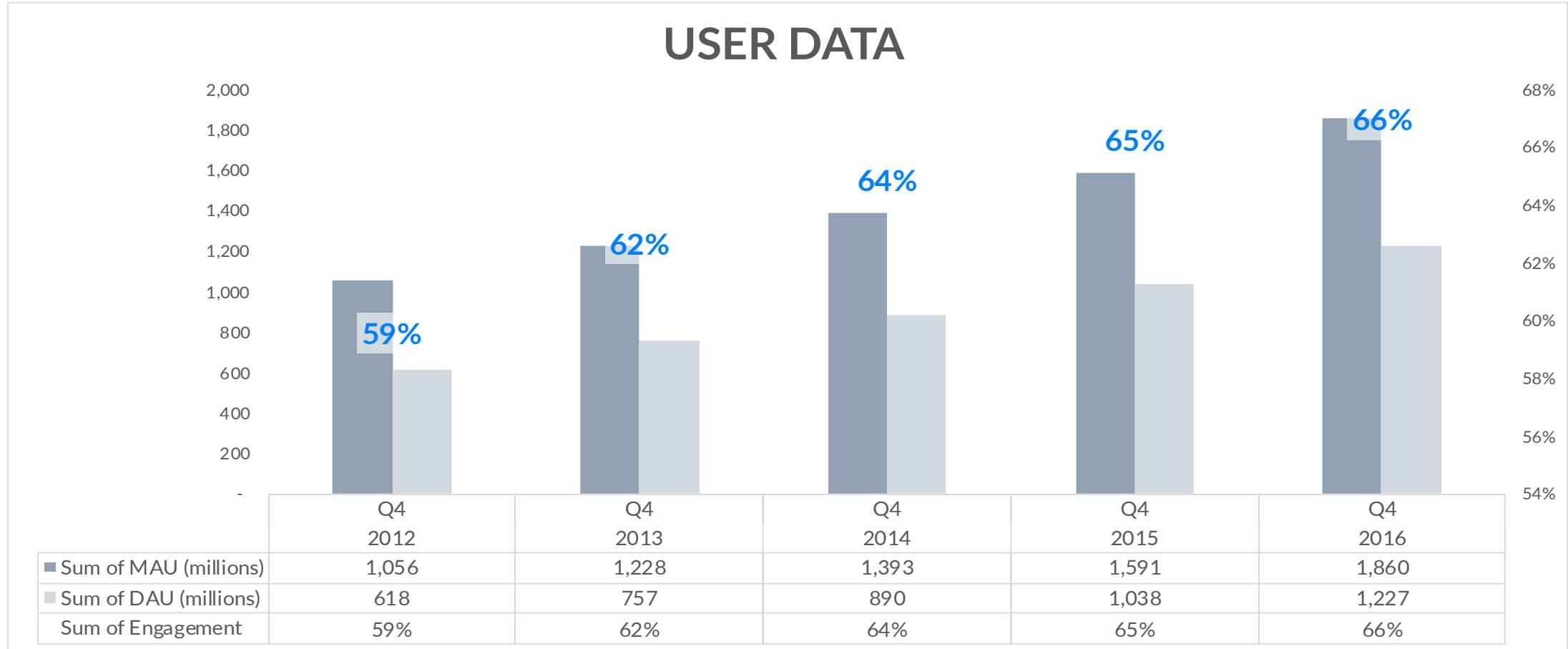
↑ Expected to be offset in part from the delivery of virtual reality platform devices and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2016 | Q4



Since Facebook has become mainly a mobile company where 83% of their results come from this channel, they no longer segment mobile in their user metrics.

*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*

# Narrative | General Information

FY2016 | Q4

## COMPANY OUTLOOK

- Video is a megatrend, in the same order as mobile.
- Looking for ways to grow ecosystem on video content as they make it easier for people to capture, find and watch videos as well as investing in more original content. This trend is expected to continue in 2017.
- Focused on building a more informed community – limiting clickbait and spam and trying to control misinformation. Started working with 3<sup>rd</sup> party fact checkers in the US.
- Important growth in use of IG stories + added new features like Boomerang and Live.
- Using AI to enhance camera tools and provide effects for pictures.
- Shipping VR controllers this December.
- Continue to invest in making free and paid products easier to use.
- Expanded 4 data centers and will initiate construction of 4 new ones.
- Businesses continue to use FB apps to communicate – both free and ad mediums to communicate more directly with their customers with more than 65M Pages on FB and 5M IG Business Profiles.
- Consumers are using mobile for their holiday shopping cementing even more the mobile trend in day-to-day activities.
- Better mobile data plan in emerging markets have a positive effect towards FB use.
- Since most MAUs and DAUs come now from mobile, FB will stop disclosing specifically mobile user metrics.
- Still have monetization opportunities with video – focused more now on increasing use both by community and educating advertisers.
- Expect ad revenue growth rate to go down meaningfully and payment fees to continue to decline.
- Focus on investing aggressively to grow business while maintaining strong cash position – will accelerate hiring and R&D investments.
- Still have ad load opportunity in Instagram as it is currently smaller than FB.

# Narrative | General Information

FY2016 | Q4

## OTHER RELEVANT INFORMATION

- Even with its strong efforts in video, Snapchat still seems to attract more attention from users between 18-24 who tend to spend more time on social media. As they compete for the same advertising dollars, this becomes a challenge that FB faces with its family of apps.<sup>59</sup>
- As shoppers turn to apps to make purchases, Instagram wants in on the action. Facebook Inc.'s popular photo-sharing network will roll out a new feature next week that lets you buy what you see in a photo—without ever having to leave its iPhone app.<sup>60</sup>
- FB says it can't maintain its current growth pace. Starting mid-2017, will stop showing users more ads in their news feed which will result in advertising growth coming down meaningfully.<sup>61</sup>
- Ad buyers want more transparency into how third-party data is collected on Facebook and Google's YouTube, and ideally more oversight over the process since it helps them determine where and how to spend their video marketing money. Meanwhile, Facebook and Google—which reeled in 68% of spending on U.S. online advertising in the second quarter, according to Pivotal Research—argue that they provide and allow for plenty of measurement, just with some restrictions to protect users' privacy and to keep pages loading quickly.<sup>62</sup>
- Facebook faces criticism as many are concerned that Facebook's algorithm puts its users in a "filter bubble" where they only hear news and information from people who agree with them. Mr. Zuckerberg has repeatedly rejected that assessment.<sup>63</sup>
- Facebook Inc. said it has uncovered several more flawed measurements related to how consumers interact with content, raising more questions about the metrics marketers lean on to decide whether to buy ads on the social media network.<sup>64</sup>
- Facebook is turning to outside groups for help in fact-checking, Mr. Zuckerberg wrote. It is also exploring a product that would label stories as false if they have been flagged as such by third-parties or users, and then show warnings to users who read or share the articles. Mr. Zuckerberg reiterated that Facebook doesn't want to become an arbiter of truth itself.<sup>65</sup>
- Taking a page from the playbooks of both Facebook and Snapchat, Instagram introduced two new features Monday: live video streaming and private photos and videos that disappear after being viewed.<sup>66</sup>
- VR has had a slower adoption than expected with all companies involved suggesting low sales volume to date. Even so, retailers like Best Buy are developing VR departments and have demos installed in their stores. This is offset by the fact that main video games developers have not adopted VR with their main franchises.<sup>67</sup>
- Oculus will finally launch its Touch motion-sensing controllers. While they're arriving later than rivals, they're the best VR grips yet.<sup>68</sup>

# Assumptions

FY2016 | Q4

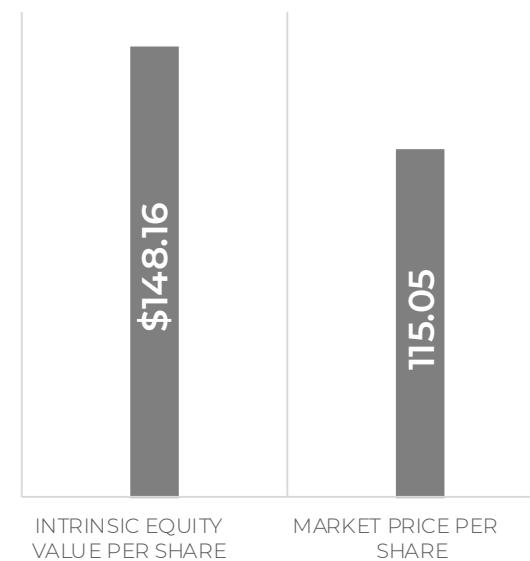
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$27,638	30.00%	2.45%	2.45%	User growth and engagement, especially in mobile, continue to drive results for the company as FB's main factor for growth is # of ads delivered. Considering the amount of global users FB has, further growth in this platform becomes more challenging but the company still has chance to continue growing with IG which is currently smaller. With businesses increasing using their different apps, its further involvement in ecommerce and not all video being monetized, revenue has still strong growth ahead if FB can manage to adequately police their platforms as well as resolve its measurement issues which have caused distrust from ad buyers.
OPERATING MARGIN	55.15%	30.00%	40.00%	40.00%	Assuming lower operating margin at the growth phase as FB will need to continue to heavily invest as it continues to grow. The company's outlook includes further investment in both datacenter and hiring which will both increase costs. Increased margin over time as the company matures.
TAX RATE	18.38%	18.38%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.64	RIR =	20.08%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	28.93%	Marginal ROIC =	13.13%	12.20%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.10%	7.20%	7.20%	Assuming company's WACC for growth phase and reducing to the industry values for stable and terminal phase as the company matures and becomes a less risky investment.

# NUMBERS

## FY2016 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$35,929	50.12%	\$18,009	\$14,699	\$12,903	\$1,795
2	\$46,708	45.09%	\$21,062	\$17,190	\$16,774	\$416
3	\$60,721	40.06%	\$24,326	\$19,854	\$21,806	-\$1,952
4	\$78,937	35.03%	\$27,652	\$22,569	\$28,348	-\$5,779
5	\$102,618	30.00%	\$30,785	\$25,127	\$36,853	-\$11,726
6	\$127,749	40.00%	\$51,100	\$39,497	\$39,109	\$388
7	\$151,996	40.00%	\$60,798	\$44,365	\$37,733	\$6,632
8	\$172,470	40.00%	\$68,988	\$47,358	\$31,862	\$15,497
9	\$186,198	40.00%	\$74,479	\$47,908	\$21,365	\$26,543
10	\$190,760	40.00%	\$76,304	\$45,782	\$7,099	\$38,683
Terminal year	\$195,434	40.00%	\$78,174	\$46,904	\$9,417	\$37,487

The Value		
Terminal value		788,675
PV(Terminal value)		371,052
PV (CF over next 10 years)		32,383
Value of operating assets	\$	403,436
- Tax due on trapped cash brought back		(835)
+ Cash & Marketable Securities		29,449
Value of firm	\$	432,049
- Debt value of lease		(3,247)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	428,802
- Options outstanding		(613)
Value of Equity in Common Stock	\$	428,189
Number of shares (primary)		2,890
Intrinsic Equity Value per share	\$	148.16



**77.65%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2016**

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# **Q3 Results**

July – September 2016

# Narrative | Segment Drivers

FY2016 | Q3

## Advertising (+59%)

6% increase in the average price per ad

↑ # of News Feed ads on mobile & PC

50% increase in the number of ads delivered

↑ Demand of ad inventory - increase in marketers

Mobile advertising revenue was 84% of total ad revenue.

↑ Mobile user growth & engagement

↑ Number and frequency of ads displayed

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (-3%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

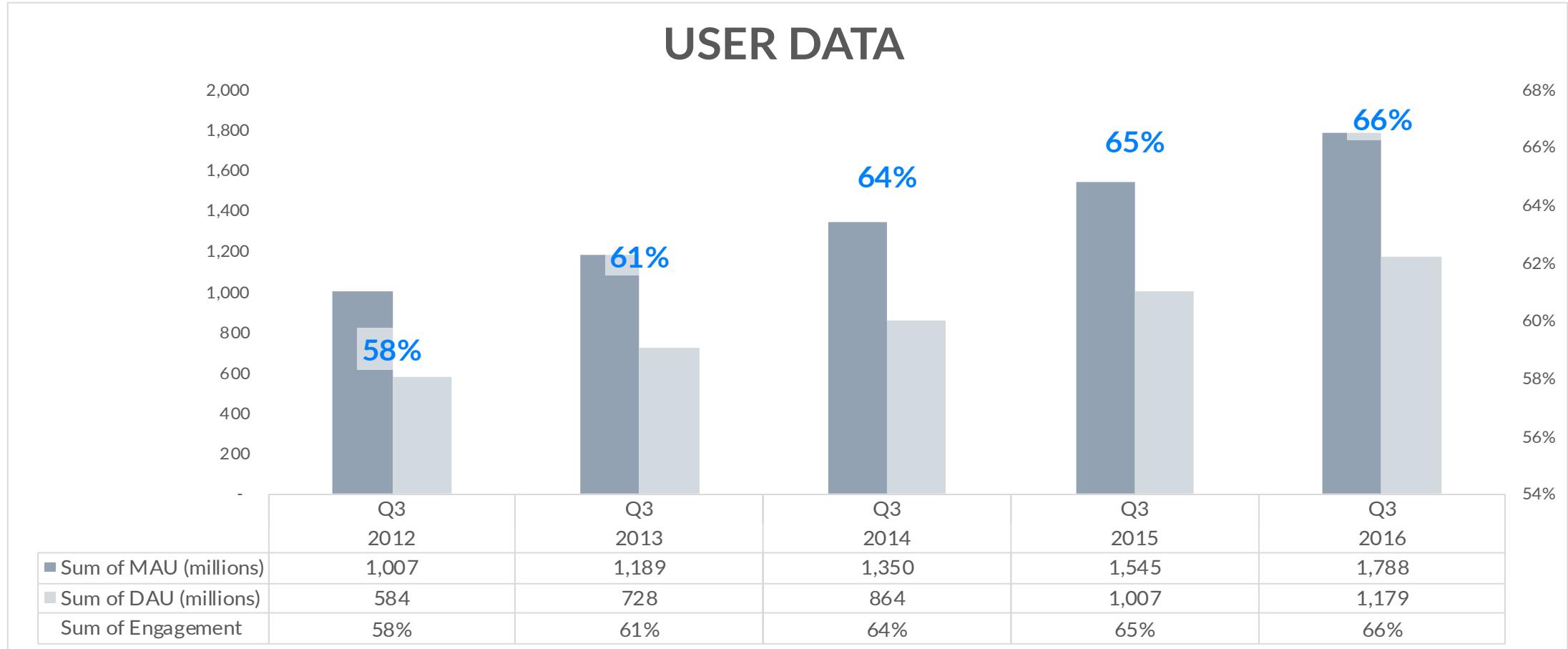
↑ Expected to be offset in part from the delivery of virtual reality platform devices and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2016 | Q3



Worldwide Mobile MAUs grew +20% to 1.66B with India, Indonesia and Brazil being key regions. Out of these, ~1.05B accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2016 | Q3

## COMPANY OUTLOOK

- Video-first approach continues as people are creating and sharing more videos.
  - The number of people going Live has grown 4x.
  - FB wants to make it easier to create video by making the camera more accessible in the app.
  - Currently testing new camera features in WhatsApp – focused on keeping app fast and reliable, not focused yet on possible monetization.
  - Launched Instagram Stories and Messenger Day as new formats of disappearing video on both platforms.
- Currently have 33K bots functioning in Messenger.
- Launched Workplace (works like a FB but for companies) with more than 1,000 companies currently using it.
- Launched Marketplace: help people discover, buy and sell things with people in their communities.
- AI continues to help in showing people more content related to what they want to see as well as helping with identifying inappropriate/ dangerous content faster, such as terrorist content.
- With VR: announced in Oculus Connect that Touch controllers for Rift will ship in December with 35 games and experiences exclusively built for Touch.
- Introduced IG business profiles – used by more than 1.5M businesses.
- FB continues to make it easier for advertisers to manage campaigns from their phones – especially crucial for SMBs.
  - The company see simplification of the use of their services and metrics as a growth driver for their ad business.
- Continue to invest in measurement by making new 3<sup>rd</sup> party partnerships with Nielsen, Datalogix, Digital IQ and Marketshare to help advertisers measure how FB ads drive business results.
- FB continues committed to aggressively invest in hiring and datacenters – anticipates that 2017 will be a big investment year.
- Emerging markets continue to be a big factor for growth in MAU and DAU.
- Guidance for 2017 ad business – expect ad revenue growth rate to reduce from current rates which have been 50%.
- As AI learns to identify content, search will be more efficient as people are increasing searching for specific content of FB, not only for people or companies anymore.

# Narrative | General Information

FY2016 | Q3

## OTHER RELEVANT INFORMATION

- Facebook will change the way advertising is loaded into its desktop website to make it more difficult for ad blockers to detect. The company stands to gain from this as it has mentioned that they have reached a “good zone” concerning current ad load.<sup>49</sup>
- Media firms are flocking to the new Instagram Stories, and that includes many of the same companies that are part of select group of publishers creating content for Snapchat Discover.<sup>50</sup>
- The messaging service WhatsApp will start sharing phone numbers and other user data with Facebook Inc., a moneymaking strategy that strays from its promise that little would change when the app was acquired by the social network in 2014.<sup>51</sup>
- Facebook Inc. said it is letting software almost entirely drive what appears in its “trending” feature, scaling back the human intervention that led to allegations of political bias earlier this year.<sup>52</sup>
- The “trending” lists have appeared more flawed than when humans were in charge. There have been false stories, misidentified keywords, and celebrity gossip in the place of more serious news.<sup>53</sup>
- Facebook has been taking heat over the revelation that for two years it miscalculated a key metric, overestimating by as much as 80% the average time people spent watching video on its platform. Some in the ad world say the controversy highlights why Facebook and other big digital platforms shouldn’t be “grading their own homework,” but should instead be submitting to measurement by independent, third-party tracking companies. It’s become a flashpoint for those arguing internet giants operate “walled gardens” with little transparency.<sup>54</sup>
- In recent weeks, anger at founder Palmer Luckey for his political views has caused backlash from the developers Oculus relies on to make games and other attractions for the Rift. Those hiccups cost Oculus about 5,000 units in lost sales last month, estimates Piper Jaffray analyst Gene Munster.<sup>55</sup>
- Oculus revealed Thursday that it is working on a new lower-end headset that wouldn’t need to be tethered to a personal computer, like the Rift, or a mobile phone. It also unveiled its \$199 Touch hand controllers for grabbing and moving virtual objects, allowing users to move more freely through a room, a feature that HTC’s Vive headset bundled with its launch.<sup>56</sup>
- Virtual reality offers a new way to play games, socialize online, watch video and more, typically through goggles that immerse users in a digital world. But adoption has been sluggish.<sup>57</sup>
- Over the past month, Facebook has rolled out several features intended to help its users shop, keep tabs on events and gather information from connections. The latest, launching on Wednesday, allow users to buy movie tickets, order food delivery and book salon appointments straight from the app.<sup>58</sup>
- Mr. Cox and Ms. Sandberg—two of the longest tenured executives at the 12-year-old social media company—also reiterated that Facebook is a technology company focused on building tools, not a media company focused on making stories. But as it has grown, Facebook has found itself grappling with some of the very issues faced by news organizations for decades.<sup>59</sup>

# Assumptions

FY2016 | Q3

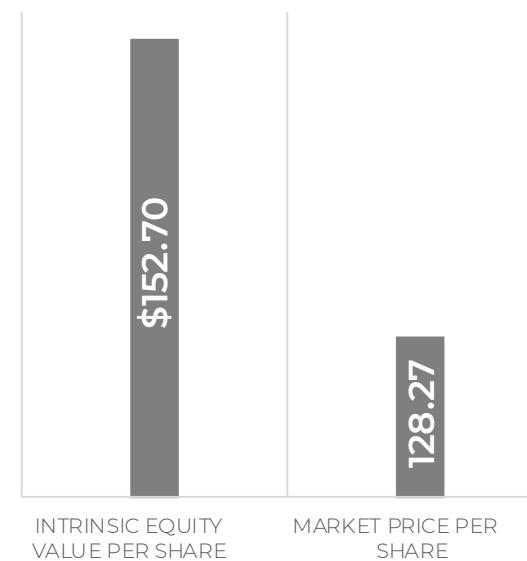
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$24,671	35.00%	1.60%	1.60%	User growth, especially in emerging markets as well as video continue to be important drivers for future growth. FB has also developed further services like Messenger Bots and Facebook Marketplace which cater to user trends while also providing new future revenue streams. AI also factors in on growth as showing user more relevant information increases their time spent which therefore increases ad inventory. All these factors are offset by distrust in FB from advertisers due to metrics miscalculations as well as user distrust due to its approach towards its impact on media and misinformation.
OPERATING MARGIN	53.93%	30.00%	40.00%	40.00%	Assuming lower operating margin at the growth phase as FB will need to continue to heavily invest as it continues to grow. The company's outlook includes further investment in both datacenter and hiring which will both increase costs. Increased margin over time as the company matures.
TAX RATE	28.91%	28.91%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.61	RIR =	13.70%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	23.58%	Marginal ROIC =	13.64%	11.68%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.31%	6.68%	6.68%	Assuming company's WACC for growth phase and reducing to the industry values for stable and terminal phase as the company matures and becomes a less risky investment.

# NUMBERS

## FY2016 | Q3

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$33,306	49.14%	\$16,367	\$11,636	\$14,042	-\$2,406
2	\$44,963	44.36%	\$19,944	\$14,178	\$18,956	-\$4,778
3	\$60,700	39.57%	\$24,020	\$17,076	\$25,591	-\$8,515
4	\$81,945	34.79%	\$28,505	\$20,264	\$34,548	-\$14,284
5	\$110,626	30.00%	\$33,188	\$23,593	\$46,640	-\$23,047
6	\$141,955	40.00%	\$56,782	\$39,107	\$50,947	-\$11,840
7	\$172,674	40.00%	\$69,070	\$46,038	\$49,954	-\$3,917
8	\$198,506	40.00%	\$79,402	\$51,164	\$42,007	\$9,156
9	\$214,942	40.00%	\$85,977	\$53,493	\$26,728	\$26,765
10	\$218,381	40.00%	\$87,352	\$52,411	\$5,593	\$46,819
Terminal year	\$221,875	40.00%	\$88,750	\$53,250	\$7,295	\$45,955

The Value		
Terminal value		904,777
PV(Terminal value)		426,160
PV (CF over next 10 years)		(8,030)
Value of operating assets	\$	<b>418,131</b>
- Tax due on trapped cash brought back		(654)
+ Cash & Marketable Securities		26,140
Value of firm	\$	<b>443,617</b>
- Debt value of lease		(2,756)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>440,861</b>
- Options outstanding		(764)
Value of Equity in Common Stock	\$	<b>440,098</b>
Number of shares (primary)		2,882
Intrinsic Equity Value per share	\$	<b>152.70</b>



**84.00%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2016**

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# **Q2 Results**

April – June 2016

# Narrative | Segment Drivers

FY2016 | Q2

## Advertising (+63%)

9% increase in the average price per ad

↑ # of News Feed ads on mobile & PC

49% increase in the number of ads delivered

↑ Demand of ad inventory - increase in marketers

Mobile advertising revenue was 84% of total ad revenue.

↑ Mobile user growth & engagement

↑ Number and frequency of ads displayed

↑ Increase in News Feed relevance, quality and performance.

## Payments and Other Fees (-8%)

Decrease in Payment revenue from games played on PCs.

↓ Expected to continue to decline as PC use declines.

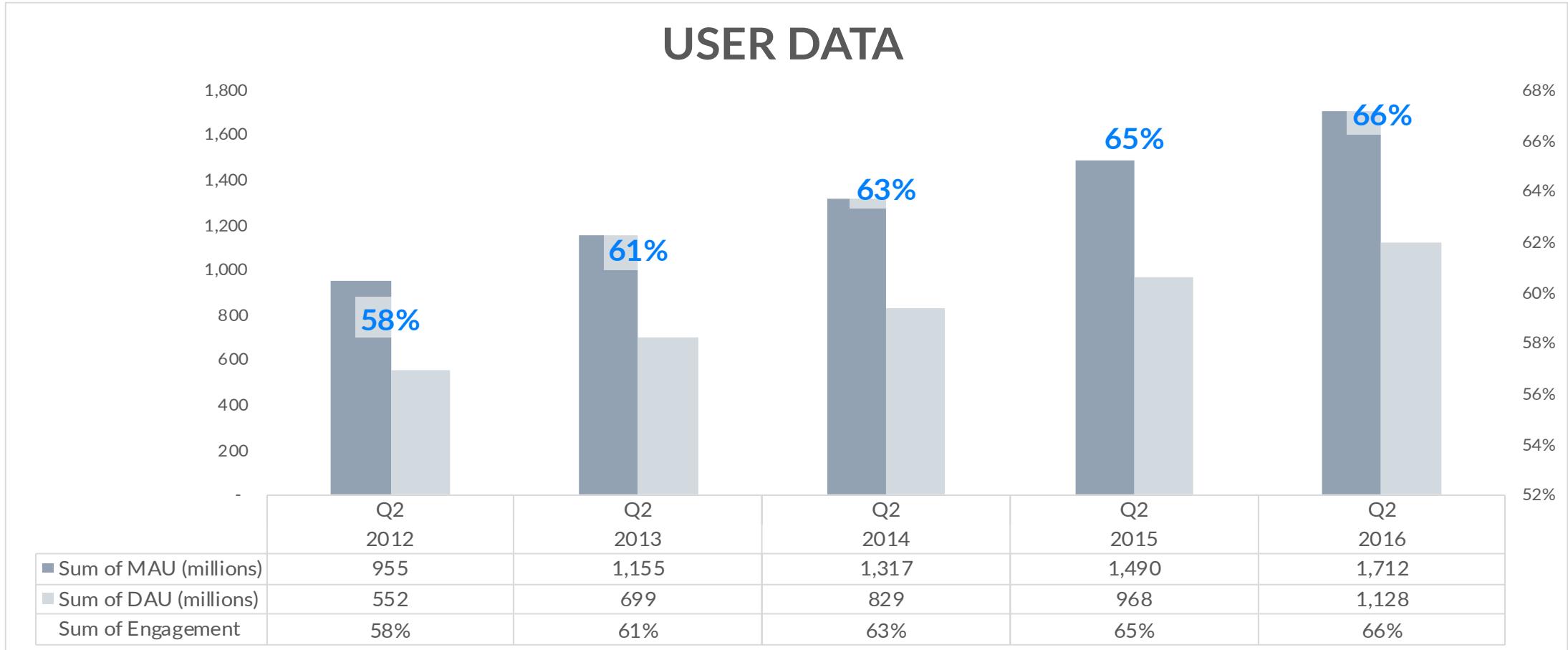
↑ Expected to be offset in part from the delivery of virtual reality platform devices and related platform sales.

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2016 | Q2



Worldwide Mobile MAUs grew +20% to 1.57B with increases in all regions through this channel. Out of these, ~967M accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2016 | Q2

## COMPANY OUTLOOK

- News Feed ads in mobile continue to be the main driver of revenue.
- Lawsuit on behalf of shareholders following announcement of stock reclassification to create Class C non-voting capital stocks as a form of a one-time dividend.
- Time spent per person increased double-digit percentages YoY across FB, IG & Messenger.
- Biggest opportunities for growth in emerging markets where the company is focused on making the app user-friendly regardless of the device or connection available.
- Video continues to be a driver for engagement – FB focus is video-first.
- Enhancing user experience by working with helping develop more engaging ads.
- Progress in AI – Deep Text – deep learning-based engine that can understand the context of several thousand posts per second across 20 different languages.
  - Helps show people more of what they are interested in seeing and filter out less of what they don't want to see.
- Filled all pre-orders for Oculus Rift and are seeing increasing demand for VR sets.
- Ad load expected to continue to grow modestly over the next 12 months and then will be less significant factor driving growth after mid-2017.

# Narrative | General Information

FY2016 | Q2

## OTHER RELEVANT INFORMATION

- FB depends on both its algorithm and human interference in order to determine user content and is accused of potentially biasing the feed.  
[41](#)
- Facebook Will Turn Your Panorama Photos Into 360-Degree VR Images.  
[42](#)
- FB called out by the conservative party for manipulating content supporting more democratic news.  
• Facebook's curators shape computer-generated lists to select and present highlighted topics, including the "correct angle" for a topic, the proper photo and the primary link to a news source. They also include suggestions on "blacklisting" items from the trending list because they duplicate other items, they are "stale," or they come with a "low quality hashtag." Under certain conditions, curators also can add topics not identified by Facebook's software.  
[43](#)
- Vine is struggling as marketers and ad buyers are directing dollars towards competitors like Snapchat, Facebook and Instagram. Video creators frustrated with Vine have followed the ad money, and some of the top "Viners" rarely post anymore as they focus on their other social media accounts.  
[44](#)
- Facebook Inc. is now selling video ads on behalf of other companies, a move that could prove lucrative for the technology giant and intensify its competition with Alphabet Inc. subsidiary Google and other online ad specialists.  
[45](#)
- Facebook will now help marketers show ads to all users who visit websites and applications in its Audience Network ad network. Previously Facebook only showed ads to members of its social network when they visited those third-party properties.  
[46](#)
- Facebook Inc. has inked contracts with nearly 140 media companies and celebrities to create videos for its nascent live-streaming service, as the social network positions itself to cash in on a lucrative advertising market it has yet to tap—and keep its 1.65 billion monthly users engaged.  
[47](#)
- Facebook will tweak its algorithm to give friends and family posts more weight as it worries that having a feed filled with outside information is not attractive for users and would reduce engagement.  
[48](#)

# Assumptions

FY2016 | Q2

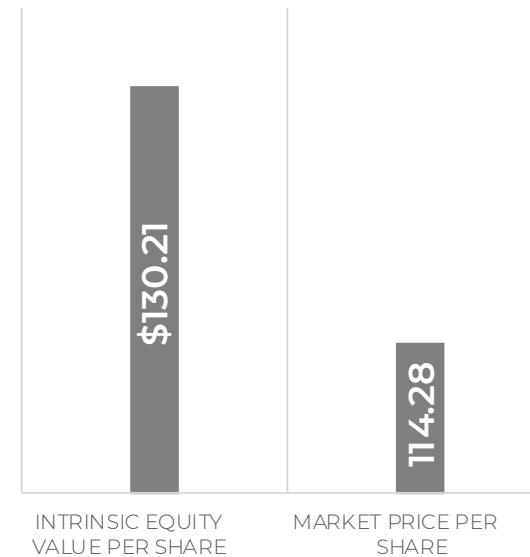
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$22,161	35.00%	1.49%	1.49%	Facebook continues to show its ability to grow by quickly adapting to change as it focuses on video-first to increase attractiveness and engagement with its users. Strong bets on live, expanding FAN, giving priority to user content and progress of its algorithm through AI are some of the key factors pushing for future growth. Reducing growth rate slightly from 40% to 35% as company is very dependent on advertising and it estimates that ad load will grow more modestly in the future.
OPERATING MARGIN	52.86%	30.00%	40.00%	40.00%	Assuming lower operating margin at the growth phase as FB will need to continue to heavily invest as it continues to grow and new competition such as Snapchat continue to gain market. Increased margin over time as the company matures.
TAX RATE	31.72%	31.72%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.58	RIR =	12.74%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	20.80%	Marginal ROIC =	12.94%	11.69%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.21%	6.69%	6.69%	Assuming company's WACC for growth phase and reducing to the industry values for stable and terminal phase as the company matures and becomes a less risky investment.

# NUMBERS

## FY2016 | Q2

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$29,917	48.29%	\$14,447	\$9,864	\$13,460	-\$3,596
2	\$40,388	43.72%	\$17,656	\$12,055	\$18,170	-\$6,115
3	\$54,524	39.14%	\$21,343	\$14,572	\$24,530	-\$9,958
4	\$73,608	34.57%	\$25,448	\$17,375	\$33,115	-\$15,741
5	\$99,371	30.00%	\$29,811	\$20,354	\$44,706	-\$24,352
6	\$127,491	40.00%	\$50,996	\$33,974	\$48,796	-\$14,822
7	\$155,023	40.00%	\$62,009	\$40,285	\$47,778	-\$7,493
8	\$178,113	40.00%	\$71,245	\$45,106	\$40,066	\$5,039
9	\$192,704	40.00%	\$77,081	\$47,525	\$25,320	\$22,205
10	\$195,575	40.00%	\$78,230	\$46,938	\$4,983	\$41,955
Terminal year	\$198,489	40.00%	\$79,396	\$47,637	\$6,071	\$41,567

The Value		
Terminal value		798,985
PV(Terminal value)		378,660
PV (CF over next 10 years)		(24,068)
Value of operating assets	\$	<b>354,592</b>
- Tax due on trapped cash brought back		(431)
+ Cash & Marketable Securities		23,293
Value of firm	\$	<b>377,454</b>
- Debt value of lease		(2,767)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	<b>374,687</b>
- Options outstanding		(756)
Value of Equity in Common Stock	\$	<b>373,931</b>
Number of shares (primary)		2,872
Intrinsic Equity Value per share	\$	<b>130.21</b>



**87.76%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2016**

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# Q1 Results

January – March 2016

# Narrative | Segment Drivers

FY2016 | Q1

## Advertising (+57%)

50% increase in the number of ads delivered

- ↑ Increase in demand of ad inventory
- ↑ Increase in mobile users and engagement
- ↑ Increase in # of ads displayed in News Feed
- ↑ Greater percentage of ads showing in News Feed

5% increase in the average price per ad

Mobile advertising revenue was 82% of total ad revenue.

- ↑ News Feed ads which are displayed more prominently, have significantly higher levels of engagement & a higher price per ad relative to other ad placements.

## Payments and Other Fees (-20%)

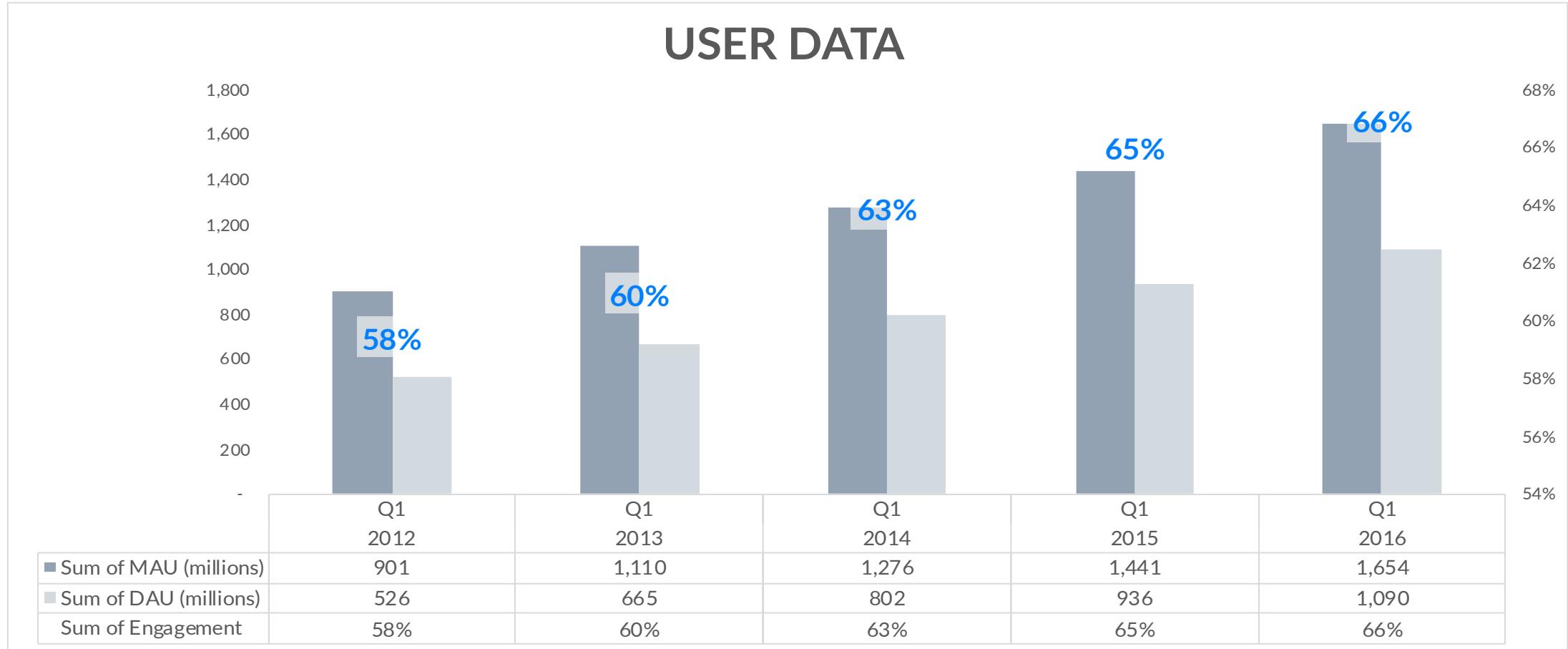
Decrease of games played on PCs

- ↓ The use of PC and gameplay on the PC is expected to continue to decrease over time which will result in further decline of Payment Revenues.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2016 | Q1



Worldwide Mobile MAUs grew +21% to 1.51B being India, Brazil and US key sources of growth. Out of these, ~894M accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

## COMPANY OUTLOOK

- FB Board approved the creation of a Class C capital stock (which would have no voting rights) to be issued as a one-time stock dividend for each share of Class A & B stock outstanding. It would be treated as a stock split in the form of dividend.
- Headcount continues to increase at a strong rate.
- Mobile continues to be the main driver for growth in both users and revenue.
- Costs grew at a lower pace than revenue even with the high investment rates.
- The use of video has been an important driver for engagement.
  - FB has focused on helping advertisers optimize their video ads.
- Continue with strong investments, data center construction being the largest contributors.
- Expect payments and other fees to continue to face headwinds.

# Narrative | General Information

FY2016 | Q1

## OTHER RELEVANT INFORMATION

- FB's Free Basics program in India (previously Internet.org) faces challenges as FB is criticized for limiting what users will have access to in their free internet deals with telecom companies. [31](#)
- Google is revealing some of its most closely guarded secrets: Blueprints for its custom-built server racks. [32](#)
- Tencent is pushing ads aggressively in its app WeChat in order to catch-up to its rivals in earnings. [33](#)
- Video creators, who make money when YouTube sells ads against their work, are frustrated with FB and their slow pace of their anti-pirating efforts. [34](#)
- Publishers are not convinced that FB's Suggested Video Program can be the next place where they make money off ads and are in the dark as to how they get paid. [35](#)
- Advertisers and Web publishers will be able to post articles, videos and images that marketers have paid for to their Facebook pages; to date, they have only been able post such content within ad units. [36](#)
- FB is working with more than two dozen companies on an initiative to turn the Messenger App into a hub for shopping. It also showed developers in F8 how to build chatbots in the app in order to field customer service questions and helping the user to order goods without requiring a person on the other end of the conversation. [37](#)
- Facebook Inc. created a research lab to develop hardware products and hired a top Google executive to lead the effort, underlining the social-networking company's broadening technology ambitions. [38](#)
- FB is developing a standalone camera app in order to encourage users to post more, showing their anxiety to users' increasingly passive behavior on the social network. [39](#)
- FB reinforces its standing as mobile advertising powerhouse, gaining market-share. Facebook is expected to garner about 12% of the \$186.8 billion global digital-advertising market this year, up from 10.7% last year and 8.6% in 2014, according to data firm eMarketer. By contrast, Google's share is projected to decline to 31% from 33% in 2015 and 35% two years ago. [40](#)

# Assumptions

FY2016 | Q1

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$19,767	40.00%	1.78%	1.78%	Revenue expected to continue to grow at a high pace as FB still has potential to grow in mobile and as they explore new possible growth avenues, especially with Messaging Apps. Maintained 40% revenue growth rate this Q as FB still faces less user interaction as well as issues with creators and publishers with its video platform which they expect to generate growth as users are spending more time watching video.
OPERATING MARGIN	51.13%	30.00%	40.00%	40.00%	Reduced to 30% as FB expects to continue aggressively investing in headcount growth as well as datacenter investment which increase operating costs. Increased in stable phase as the company stabilizes and requires less investment for growth.
TAX RATE	36.04%	36.04%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.53	RIR =	15.20%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	17.44%	Marginal ROIC =	13.54%	11.71%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		7.95%	6.71%	6.71%	Assuming company's current WACC which is higher than the market values. FB has low debt. Placed global values for WACC for stable and terminal phase as the company matures and is expected to have lower risk.

# NUMBERS

## FY2016 | Q1

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$27,674	46.91%	\$12,980	\$8,302	\$14,829	-\$6,527
2	\$38,743	42.68%	\$16,535	\$10,575	\$20,760	-\$10,185
3	\$54,241	38.45%	\$20,857	\$13,339	\$29,064	-\$15,725
4	\$75,937	34.23%	\$25,990	\$16,622	\$40,690	-\$24,067
5	\$106,312	30.00%	\$31,894	\$20,398	\$56,965	-\$36,568
6	\$140,710	40.00%	\$56,284	\$35,551	\$54,920	-\$19,369
7	\$175,482	40.00%	\$70,193	\$43,781	\$55,518	-\$11,736
8	\$205,433	40.00%	\$82,173	\$50,604	\$47,820	\$2,784
9	\$224,793	40.00%	\$89,917	\$54,662	\$30,910	\$23,751
10	\$228,795	40.00%	\$91,518	\$54,911	\$6,389	\$48,522
Terminal year	\$232,867	40.00%	\$93,147	\$55,888	\$8,495	\$47,393

The Value		
Terminal value		961,269
PV(Terminal value)		462,924
PV (CF over next 10 years)		(52,021)
Value of operating assets	\$	410,903
- Tax due on trapped cash brought back		(362)
+ Cash & Marketable Securities		20,621
Value of firm	\$	431,162
- Debt value of lease		(2,738)
- Total Interest Bearing Debt		-
- Preferred Stock		-
Market Value of Equity	\$	428,425
- Options outstanding		(851)
Value of Equity in Common Stock	\$	427,573
Number of shares (primary)		2,860
Intrinsic Equity Value per share	\$	149.49



**76.33%**  
PRICE AS % OF VALUE

VALUATION YEARS

# FY2011 - FY2015

IPO | WhatsApp & Oculus Acquisitions | Yearly Close Valuations



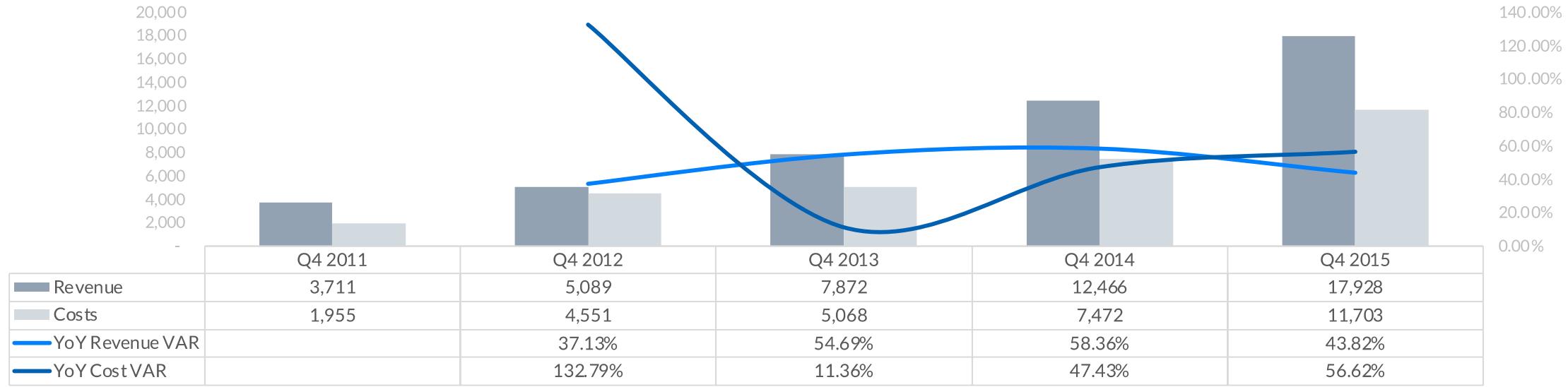


# General Narrative

- ∞ Facebook shifts from focus on PC use towards a mobile first company as users shift towards mobile.
- ∞ Big investments in growth specifically in Datacenters and through M&A, making big bets on the future.

# 2011 - 2015 at a Glance

## REVENUE & COSTS



## OPERATING MARGIN



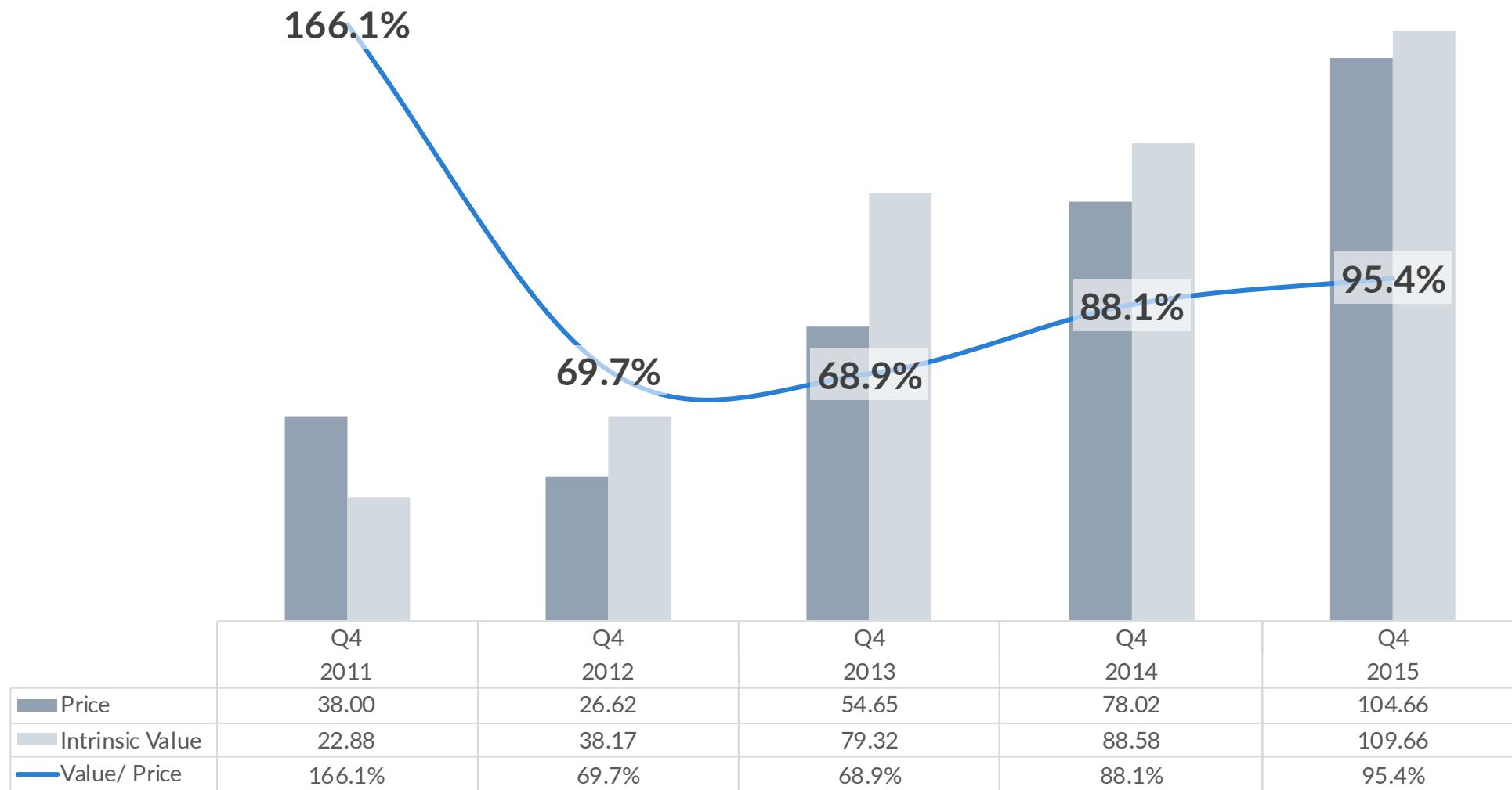
Revenue 5Y CAGR of 48.26% as company's advertising revenue increase at a high speed mainly due to New Feed ads which were present in both mobile and PC platforms. Mobile passed from being non-existent in 2011 to becoming 77% of advertising revenue by 2015, showing the shift the company and user did towards mobile use.

Costs 5Y CAGR of 56.42% as big investments loads the company cost structure which directly impacts operating margins. FB's game plan of investing and growing the network first and later finding possible monetization strategy will hinder its margins in the near future as it continues to aggressively invest to further future growth.

# IMPORTANT MILESTONES

- ∞ Company's IPO on May 2012 with starting price/share of \$38 turns downward as investors fear FB will not be able to deliver high growth results.
- ∞ Acquisition of Instagram for \$1B in 2012, marking highest acquisition as of that date.
- ∞ FB shifts towards a mobile first company as CEO Mark Zuckerberg sees the tech's potential.
- ∞ FB focuses on measurement tools in order to be able to prove to advertisers their ads effectiveness and attract more market.
- ∞ Acquisition of WhatsApp for \$19B and Oculus for \$2B in 2014 as platforms that will be important for the company's future.
- ∞ FB strong investments in proprietary datacenters and AI.
- ∞ The use and consumption of video as a form of communication is becoming more important for all FB platforms.

# Intrinsic Value vs Price





FISCAL YEAR  
**2015**

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# **Q4 Results**

January – December 2015

# Narrative | Segment Drivers

FY2015 | Q4

## Advertising (+49%)

140% increase in the average price per ad

↑ Product change in non-News feed ads → decreased # displayed but increased prominence.  
↑ Greater shift towards ads shown in News Feed.  
↑ Increase in # of marketers actively advertising increases demand for ad inventory.

-38% decrease in the number of ads delivered

↓ Product changes described above.

Mobile advertising revenue was 77% of total ad revenue

↑ News Feed ads have significantly higher levels of engagement & a higher price per ad relative to other ad placements.

## Payments and Other Fees (- 13%)

Revenues based predominantly on games played on personal computers

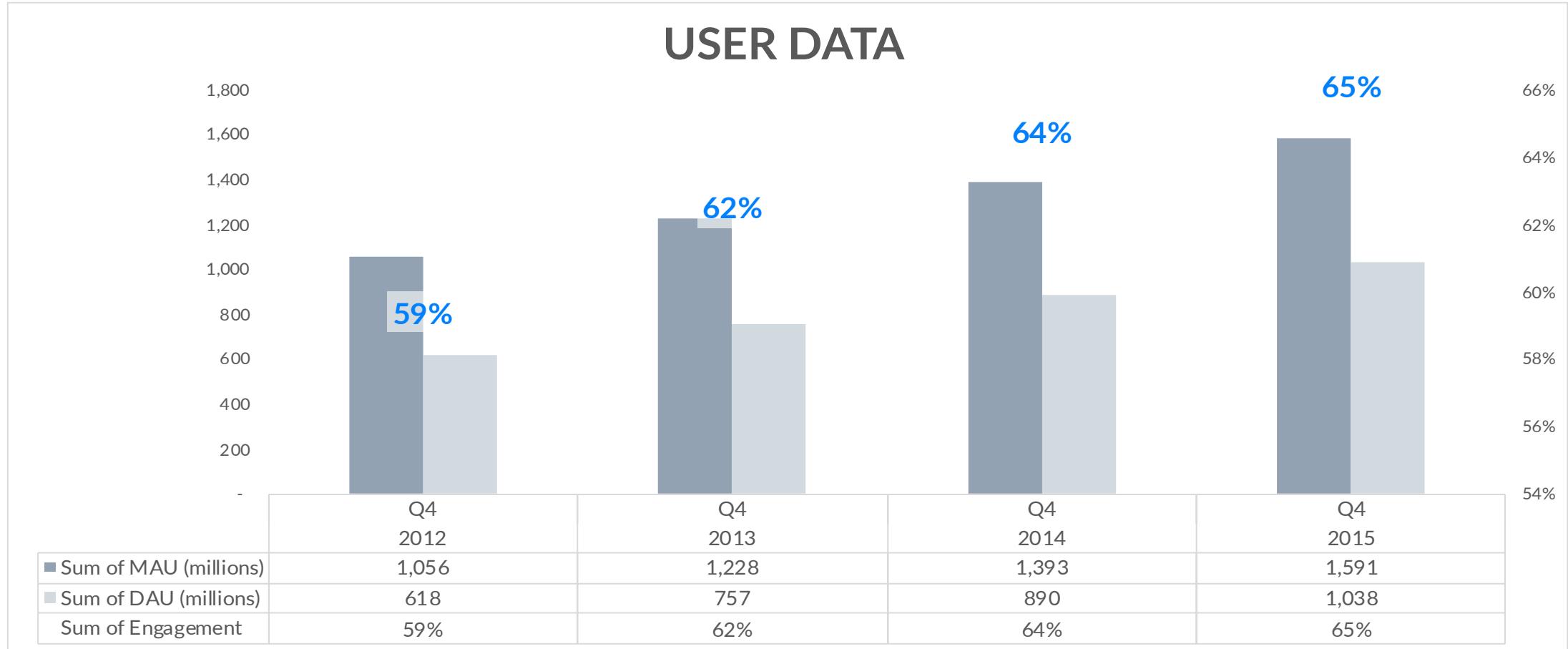
↓ Expect PC usage to continue to decline which should result in a decline of Payment revenue.

Increase in other fees related to acquisitions closed in second half of 2014

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2015 | Q4



Worldwide Mobile MAUs grew +21% to 1.44B with increases in all regions through this channel. Out of these, ~823M accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2015 | Q4

## COMPANY OUTLOOK

- Investments will be focused on improving existing products and develop new ones in the short term. In the long term focused on connectivity efforts, artificial intelligence research and VR to develop tech FB believes will help them better serve their communities.
- Will continue to increase headcount at an aggressive rate + continue to grow through M&A.
- Technologies have been developed that can block the display of FB ads, which hinders their advertising revenues as they limit impressions.
- Cost are continuing to increase at a higher rate than revenue – this behavior will persist as WhatsApp and Oculus are not focused on monetization now but do increase cost structure.
  - R&D cost almost doubled in value mainly due to share-based compensations.
  - Announced WhatsApp will be free to everyone – subscription model was removed.
- Video has become an important part of the FB experience and will continue to invest.
- Making progress in AI by building a prototype of a system that combines language and vision comprehension.
  - FB is open-sourcing their software and a lot of their hardware to drive the entire AI community forward.
- Opened pre-orders for Oculus headsets – more than 100 VR games are coming for Oculus this year.
- Growing adoption of Instagram as 98 of the TOP 100 advertisers also used this platform in Q4.
- Ad measurement tools remain a critical focus area to continue to attract advertisers.
- Expect 2016 to be another big investment year as FB continues to expand their datacenters

# Narrative | General Information

FY2015 | Q4

## OTHER RELEVANT INFORMATION

- Beyond mobile ads, Facebook and Google increasingly compete in areas ranging from streaming video to virtual reality and search. [22](#)
- Facebook also said it would start sharing ad revenue with video creators in a bid to attract more high-quality videos to the social network and grab a piece of advertisers' television budgets.[22](#)
- Facebook is testing a way for businesses to sell items through their FB pages and will also allow users to track online orders through its Messenger app. For now, it isn't generating revenue for Sale Groups.[23](#)
- People are frustrated with Facebook's free Internet access program in developing countries due to priority being given to its apps which thwarts the principles of net neutrality. [24](#)
- Facebook can recognize individuals with 83% accuracy through its latest AI advancements using the method PIPER (pose invariant person recognition).[25](#)
- FB unveils plans to beef up Messenger mobile app to allow users to book reservations, track online order and send custom videos. This initiative is led by David Marcus who was hired from eBay's PayPal unit last year to run Messenger. [26](#)
- Facebook's Audience Network product previously sold and placed ads into mobile applications, but it will now include support for mobile websites, too. [27](#)
- FB currently testing M, its digital assistant available through Messenger App. If M works, it could mean Facebook will open up a major new front in its battle with Google for your attention, and in the process give the social-networking site access to a gigantic pool of direct-response advertising dollars that has so far eluded the company.[28](#)
- Even though engagement continues to rise, users are posting less often on FB. FB tries to prompt users to share more in order to avoid the network becoming potentially dry/ boring.[29](#)
- Facebook Inc. has found a new use for its trove of user data: helping companies get feedback on their products and glean information that can refine their marketing.[30](#)
- Mobile and Social Ad spend [grow dramatically](#) in 2015.

# Assumptions

FY2015 | Q4

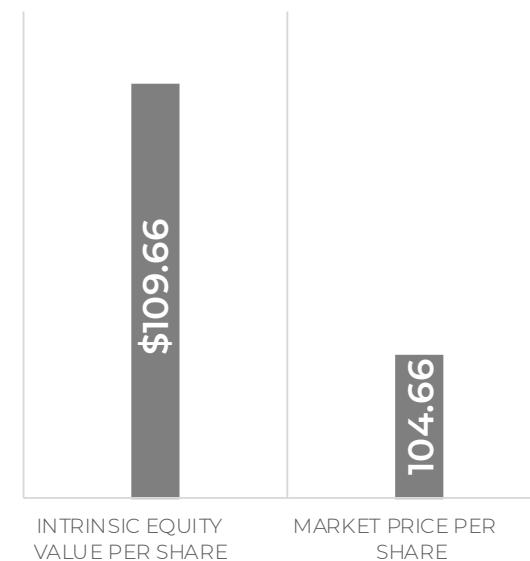
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$17,928	40.00%	2.27%	2.27%	FB continues to grow as mobile advertising becomes more important with the increment of time spent on the devices by users. The company has also been exploring new prospects of investment in order to potentially bring in more revenue streams from different forms of advertising as well as e-commerce and work as marketing consultants. Even though these other trials FB has been doing are not yet monetizing, they are on their way to determine which could use their trial-and-error method which has worked for them so far.
OPERATING MARGIN	50.51%	30.00%	40.00%	40.00%	Assuming lower margins as FB indicates that it will continue with aggressive hiring as well as M&A (even though smaller than WhatsApp and Oculus). The acquisition of previous years, further investment in development of datacenters and in AI will also increment their cost structure. As the company will continue having higher cost growth than revenue growth, the assumption of lower operating margin remains in the growth phase, later stabilizing to higher margins.
TAX RATE	40.46%	40.46%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.50	RIR =	17.84%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	15.11%	Marginal ROIC =	13.93%	12.72%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.47%	7.72%	7.72%	Assuming company's current WACC which is higher than the market values. FB has low debt. Placed lower WACC for stable and terminal phase assuming that as the company matures it will represent a lower risk.

# NUMBERS

## FY2015 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$25,099	46.41%	\$11,648	\$6,935	\$14,274	-\$7,339
2	\$35,139	42.30%	\$14,865	\$8,851	\$19,984	-\$11,132
3	\$49,194	38.20%	\$18,794	\$11,190	\$27,977	-\$16,787
4	\$68,872	34.10%	\$23,487	\$13,984	\$39,168	-\$25,183
5	\$96,421	30.00%	\$28,926	\$17,223	\$54,835	-\$37,612
6	\$127,714	40.00%	\$51,085	\$30,464	\$45,998	-\$15,534
7	\$159,524	40.00%	\$63,810	\$38,110	\$46,760	-\$8,649
8	\$187,221	40.00%	\$74,888	\$44,796	\$40,712	\$4,084
9	\$205,599	40.00%	\$82,240	\$49,268	\$27,014	\$22,255
10	\$210,266	40.00%	\$84,106	\$50,464	\$6,860	\$43,604
Terminal year	\$215,039	40.00%	\$86,016	\$51,609	\$9,208	\$42,402

The Value		
Terminal value		777,497
PV(Terminal value)		351,988
PV (CF over next 10 years)		(54,338)
Value of operating assets	\$	<b>297,650</b>
- Tax due on trapped cash brought back		(308)
+ Cash & Marketable Securities		18,434
Value of firm	\$	<b>315,776</b>
- Debt value of lease		(2,722)
- Total Interest Bearing Debt		(114)
- Preferred Stock		-
Market Value of Equity	\$	<b>312,940</b>
- Options outstanding		(828)
Value of Equity in Common Stock	\$	<b>312,112</b>
Number of shares (primary)		2,846
Intrinsic Equity Value per share	\$	<b>109.66</b>



**95.44%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2014**

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# **Q4 Results**

January – December 2014

# Narrative | Segment Drivers

FY2014 | Q4

## Advertising (+65%)

173% increase in the average price per ad

- ↑ Greater shift towards ads shown in News Feed.
- ↑ Product change in non-News feed ads → decreased # displayed but increased prominence.
- ↑ Increase in # of marketers actively advertising increases demand for ad inventory.

-40% decrease in the number of ads delivered

- ↓ Product changes described above.
- ↓ Shift towards mobile where FB shows fewer ads

Mobile advertising revenue was 65% of total ad revenue

- ↑ News Feed ads have significantly higher levels of engagement & a higher price per ad relative to other ad placements.

## Payments and Other Fees (+10%)

Increased revenue from ad serving and measurement products

Delivery of virtual reality platform devices

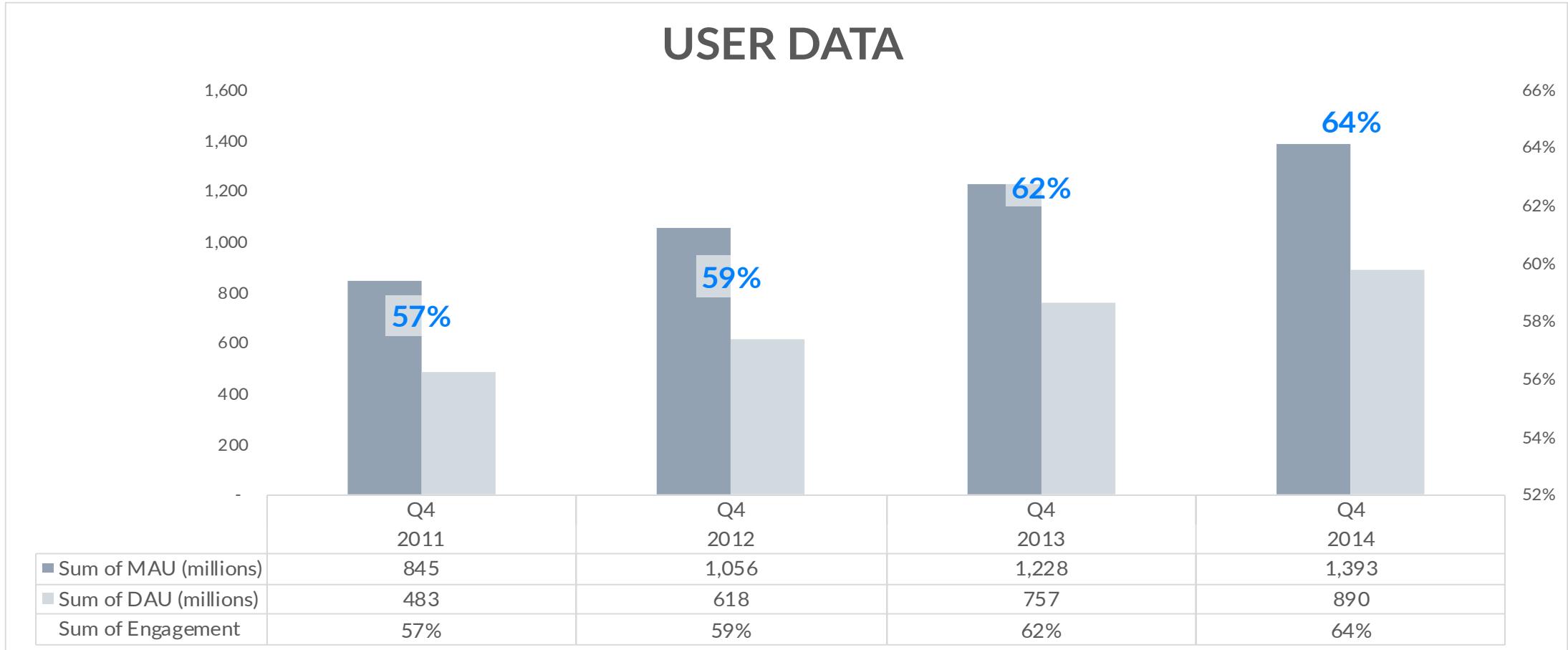
Revenues based predominantly on revenue from games played on personal computers

Expect PC usage to continue to decline which should result in a decline of Payment revenue.

↑ Factors driving growth.  
↓ Factors that offset growth.

# Narrative | User Data

FY2014 | Q4



Worldwide Mobile MAUs grew +26% to 1.19B with increases in all regions through this channel. Out of these, ~526M accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2014 | Q4

## COMPANY OUTLOOK

- Expect to continue with aggressive headcount growth.
- FB continues to drive users to Messenger even though it does not monetize the platform yet
- Important Acquisitions this year: WhatsApp & Oculus.
  - Specifies that if they find other opportunities such as these two companies in the future they will consider them, but the same rhythm of acquisitions is not to be expected.
- Invested aggressively in improving ad tech/ measurement tools.
  - People are bigger believers of FB because they have been able to do more measurement over the past year. Companies can do A/B testing to see how people respond to their ads.
- Launched audience network worldwide which allows advertisers to place ads in other apps that work with FB.
- Growth in video as well as expanded auto-play video ads internationally.
- Scaled Instagram ads.
- Believe focus for growth should be in better targeting → better targeting makes for better experiences for users + better results for marketers.

## OTHER RELEVANT INFORMATION

- At the same time that Facebook was wooing WhatsApp, Google offered to acquire the messaging service for \$10 billion. [16](#)
- Consumers worry about broadcasting their preferences and habits to companies and across their social networks. Businesses are torn between making life easier for users and letting Facebook and Google see the resulting data. [18](#)
- David Marcus, president of eBay Inc.'s EBAY PayPal payments subsidiary, is leaving to become Facebook vice president of messaging products, specifically Messenger. [19](#)
- Facebook had to tighten its guidelines on its Data Science team after user were subjected to research tests without their knowledge. Before this, the team had barely no guidelines in order to conduct studies. [20](#)
- Facebook launched Atlas platform which will improve how advertisers target and measure the advertisement they buy. The main impact towards advertiser knowledge will be that it will be able to follow and connect what people see and use both in mobile and computers. As of today, mobile activity cannot be linked to the same users on PC since Cookies do not work on mobile. [21](#)

# Narrative | Acquisition Breakdown

FY2014 | Q4  
WHATAPP



## BREAKDOWN

\$4B  
CASH

31.7% of Cash & Marketable Securities that FB had in Q1 when deal was announced

\$12B  
SHARES

184M  
SHARES OUTSTANDING

\$3B  
RSU

46M  
RESTRICTED STOCK UNITS

Represents 7.9% of total FB shares

- Only app that has higher engagement than Facebook as of acquisition announcement date.
- Currently operating under subscription model but current focus will be towards gaining more users rather than monetization. Do not see advertising as a feasible model for this company.
- WhatsApp will operate as a separate company.
- See Facebook Messenger and WhatsApp as two different use cases.
- The combined price of \$19 billion represents about \$42 per user compared with about \$30 per user in the Instagram deal. Facebook's current market cap values its own user base at around \$140 per user. [13](#)
- The company clearly sees its opportunity in the large base of customers who pay billions of dollars each month to wireless carriers for texting.
- Valuation of the company was based mainly on how useful it is for people. If you bring great utility for the market, that sets up for a great business over time.
- See SMS as competition for WhatsApp. Messaging is a very competitive space, but WhatsApp is the clear leader.

FOUNDER PROFILE + COMPANY HISTORY IN APPENDIX



COMPANY BACKGROUND

# Narrative | Acquisition Breakdown

## Major Players in Messaging Apps

WhatsApp	WeChat	KakaoTalk	Line	Viber	Snapchat
WhatsApp Inc. (DEVELOPER)	Tencent Holdings	Kakao Corp.	Line Corp.	Viber Media Inc.	Snapchat Inc.
U.S. (COUNTRY OF ORIGIN)	China	South Korea	Japan/South Korea	Cyprus	U.S.
450 million active users a month	272 million active users a month	133 million registered users	350 million registered users	300 million registered users	Unavailable
One of the pioneers in mobile messaging, WhatsApp, which Facebook is to buy, is focused on simple messaging	Dominant in China, the world's largest smartphone market	Turned its first annual profit in 2012; biggest outside shareholder is Tencent	85% of registered users are outside Japan, based mostly in Thailand, Taiwan, Indonesia and India	Japanese e-commerce firm Rakuten recently agreed to buy Viber for \$900 million	Snapchat last year rejected a \$3 billion buyout offer from Facebook
Sources: the companies; staff reports					
The Wall Street Journal					

Source: Mozur, Paul. "Facebook-WhatsApp Deal: Still a Tough Sell in Asia." *The Wall Street Journal*, Dow Jones & Company, 21 Feb. 2014, <https://www.wsj.com/articles/SB10001424052702303636404579394820225329820>.

- Those apps, which offer social-networking and entertainment features on top of instant messaging, represent trends in mobile Internet that started in Asia, a shift from trends starting in the U.S. and then spreading to Asia.
- In China, where Facebook is largely unavailable, WhatsApp isn't blocked. That offers a potential new channel for Facebook to compete in the world's largest smartphone market. Though if WhatsApp adds social-media functions and gains traction in China, it likely would either have to begin self-censoring, as Chinese social networks do, or run the risk of being blocked in the country.
- The Asian apps, which can be downloaded free, use mobile games to generate revenue through in-service purchases of virtual goods, such as weapons for games.

# Narrative | Acquisition Breakdown



## BREAKDOWN

\$400M  
CASH

2.9% of Cash & Marketable Securities that FB had in Q2 when deal was announced

\$1.6B  
SHARES

23.1M  
SHARES OUTSTANDING

\$300M  
MIX

Mix of cash and stocks tied to certain milestones that Oculus has to reach.

Represents >1% of total FB shares

- Develops VR technology that is expected to expand FB's platform.
- Oculus will operate as a separate company, just like Instagram and what the company also plans to do with WhatsApp.
- Facebook sees it as a long-term bet towards what they expect to be the next major computing platform.
- Current market focus is on gaming since the technology started with this segment but see the potential of it becoming the next big social platform.
- Oculus is currently the most advanced in the market having found a way to make it cost effective.
- Unlike WhatsApp, which has 450 million users, Oculus isn't yet available to consumers, and the company hasn't said when it will be available. It currently sells prototype units to developers for \$350. [17](#)
- Oculus isn't alone attempting to build virtual-reality technology. Sony recently unveiled its "Project Morpheus," a competing headset built to work with its PlayStation 4 videogame console.[17](#)

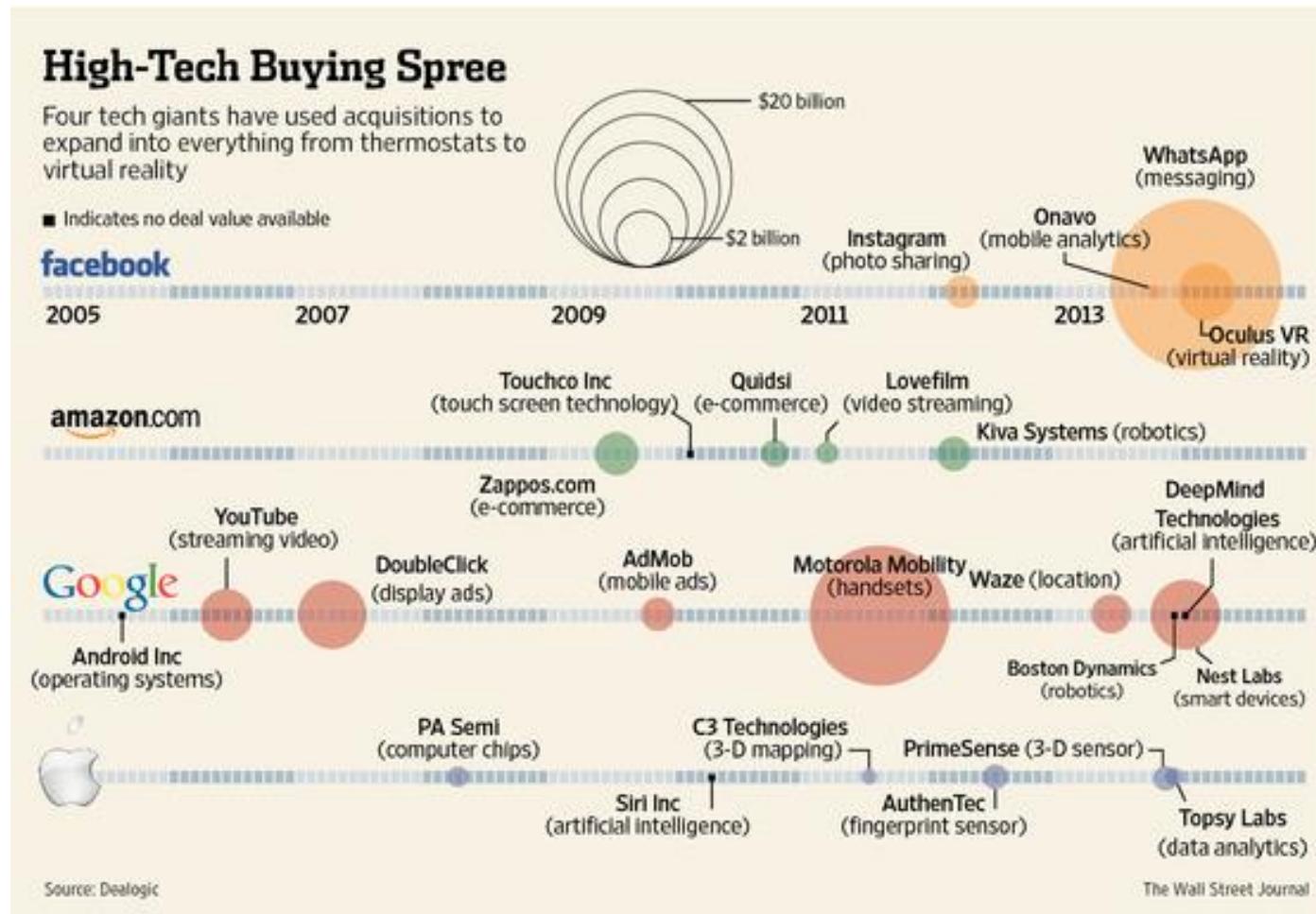
FOUNDER PROFILE + COMPANY HISTORY IN APPENDIX



COMPANY BACKGROUND

# Narrative | Acquisition Frenzy

FY2014 | Q4



- The four companies are competing to control as much as possible of the tech ecosystem. In Silicon Valley parlance, it's all about controlling "the platform." A big reason is to gather data about users, to serve them ads or to anticipate their next purchase.
- All are acutely aware of the consequences if they don't adapt quickly. Yahoo Inc. ceded Web search to Google and has never fully recovered. Microsoft has yet to develop a following on smartphones; it is trying again with its pending acquisition of Nokia Corp.'s handset business.
- "The main thing that has caused companies to fail, in my view, is that they missed the future," Google CEO Larry Page told a conference audience last week.
- "History suggests that there will be more platforms to come," Facebook's Mr. Zuckerberg said Tuesday. The companies that control those platforms will "benefit financially and strategically," he said.

# Assumptions

FY2014 | Q4

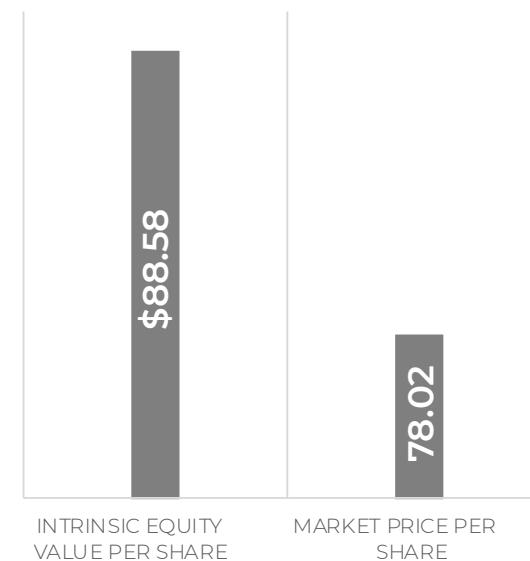
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$12,466	40.00%	2.17%	2.17%	Facebook continues with a high growth narrative where their strength in mobile has been an important factor to ensure their success. Their focus metric measurement has ensured that advertisers increasingly invest more as they trust more that their investments will return results.
OPERATING MARGIN	51.64%	30.00%	40.00%	40.00%	Assuming lower margin due to increase in cost both from aggressive hiring practices as well as major investments in acquisitions of WhatsApp and Oculus. Both companies were acquired considering RSU which must be expensed. Even though these companies have some revenues, the focus of both going forward was not centered around monetization which for the foreseeable future will increase expenses without increasing revenue.
TAX RATE	40.12%	40.12%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.40	RIR =	18.44%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	12.37%	Marginal ROIC =	13.59%	11.77%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		9.05%	6.77%	6.77%	Assuming company's current WACC which is higher than the market values. FB has low debt. Placed global values for WACC for stable and terminal phase as the company matures and is expected to have lower risk.

# NUMBERS

## FY2014 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$17,452	47.31%	\$8,257	\$4,944	\$12,466	-\$7,522
2	\$24,433	42.99%	\$10,503	\$6,289	\$17,453	-\$11,164
3	\$34,207	38.66%	\$13,223	\$7,918	\$24,434	-\$16,516
4	\$47,889	34.33%	\$16,440	\$9,844	\$34,207	-\$24,363
5	\$67,045	30.00%	\$20,114	\$12,044	\$47,890	-\$35,846
6	\$88,791	40.00%	\$35,516	\$21,275	\$25,594	-\$4,319
7	\$110,871	40.00%	\$44,348	\$26,577	\$25,989	\$588
8	\$130,054	40.00%	\$52,022	\$31,188	\$22,578	\$8,609
9	\$142,716	40.00%	\$57,086	\$34,238	\$14,903	\$19,335
10	\$145,813	40.00%	\$58,325	\$34,995	\$3,645	\$31,350
Terminal year	\$148,977	40.00%	\$59,591	\$35,754	\$6,593	\$29,161

The Value		
Terminal value		634,223
PV(Terminal value)		284,174
PV (CF over next 10 years)		(44,045)
Value of operating assets	\$	<b>240,128</b>
- Tax due on trapped cash brought back		(253)
+ Cash & Marketable Securities		11,199
Value of firm	\$	<b>251,074</b>
- Debt value of lease		(1,960)
- Total Interest Bearing Debt		(233)
- Preferred Stock		-
Market Value of Equity	\$	<b>248,882</b>
- Options outstanding		(956)
Value of Equity in Common Stock	\$	<b>247,926</b>
Number of shares (primary)		2,799
Intrinsic Equity Value per share	\$	<b>88.58</b>



**88.08%**

PRICE AS % OF VALUE



FISCAL YEAR  
**2013**

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# **Q4 Results**

January – December 2013

# Narrative | Segment Drivers

FY2013 | Q4

## Advertising (+63%)

36% increase in the average price per ad

↑ # of News Feed ads on mobile & PC

↓ Decision to lower the minimum price threshold accepted in auction.

20% increase in the number of ads delivered

↑ User growth

↑ Reserve price change

↓ Shift towards mobile where FB shows fewer ads

Mobile advertising revenue was 45% of total ad revenue.

↑ News Feed ads which are displayed more prominently, have significantly higher levers of engagement & a higher price per ad relative to other ad placements.

## Payments and Other Fees (+9%)

Increased Payment revenue from games played on FB on PCs

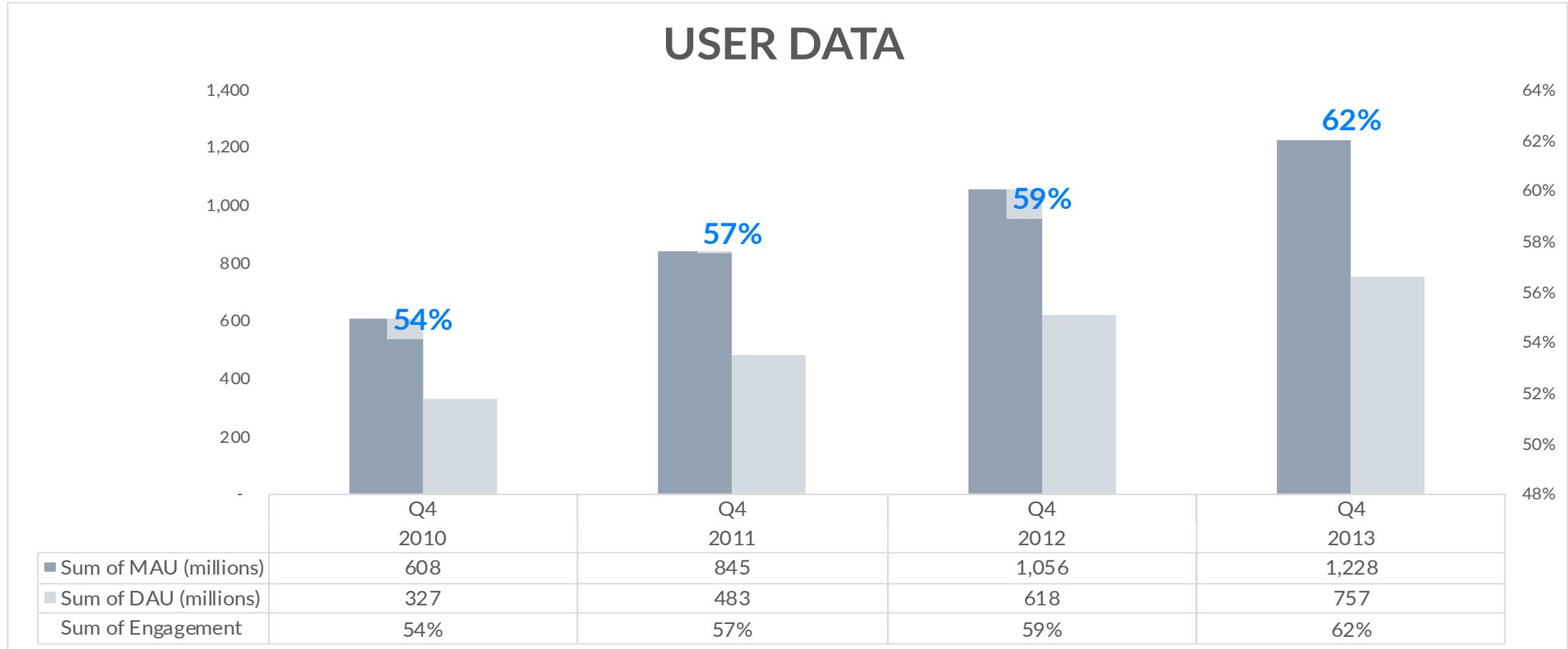
Inclusion of other fees revenue from user Promoted Posts & ad serving + measurement products

↑ Factors driving growth.

↓ Factors that offset growth.

# Narrative | User Data

FY2013 | Q4



Worldwide Mobile MAUs grew +39% to 945M with increases in all regions through this channel. Out of these, ~296M accessed FB solely through mobile.

*\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers*

# Narrative | General Information

FY2013 | Q4

## COMPANY OUTLOOK

- Aggressive headcount growth will continue → expect higher growth in costs than in revenue.
- Expect mobile to represent a higher weight in ad sales.
- Growth through M&A of small companies.
- Focus on simplifying ad products as more SMBs (Small & Medium size Businesses) join the network.
- Focus on improving ad effectiveness metrics in order to prove ROI to clients.
- News Feed ads continues to be a strong driver in performance.
- Launched video ads which increase engagement with users.
- The company has made interesting hires in the area of machine learning which they expect will allow them to provide a more relevant experience. This is part of their 5-10 year strategy.

## OTHER RELEVANT INFORMATION

- According to eMarketer, in 2013 people spend more time on digital media than on TV for the first time.
- Tension rises with developers as FB blocks apps that compete with their services as well as limiting interaction between users and other apps.<sup>9</sup>
- Concerns over privacy as FB walks the fine line between sharing data with marketers and following its commitment with the FTC.<sup>10</sup>
- Investors are concerned that FB is not attracting Teen users → losing the next generation of users will not allow FB keep pace with competitors. FB Changes its teen policy making it more open to counter this trend.<sup>11</sup>
- FB attempts to acquire Snapchat for nearly \$3B in cash to attract teen users who are migrating towards this app. Snapchat rejected this offer.<sup>12</sup>

# Assumptions

FY2013 | Q4

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$7,872	38.00%	3.04%	3.04%	With FB figuring out mobile advertising and growing in mobile use, it continues to grow at a rapid pace with YoY growth of ~55%. Since figuring out mobile was already included in the FY2012 assumption, the Growth narrative remains but it reduced to 38% (mid point between IPO and FY2012 growth assumptions) in order to be more conservative as FB still has a challenge regarding the teen population which is not attracted to their product as well as privacy issues which may reduce usage from their current audience.
OPERATING MARGIN	45.10%	35.00%	45.00%	45.00%	Assuming operating margin will reduce over time as company has specified that part of their growth strategy is to aggressively increase headcount which will cause costs to increase at a higher pace than revenue, causing operating margin to reduce. Increased in stable phase as company becomes more mature and margin stabilizes.
TAX RATE	45.53%	45.53%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.98	RIR =	23.92%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	23.99%	Marginal ROIC =	26.61%	12.71%	Expect FB to maintain strong network effects over time and maintain high ROIC levels.
COST OF CAPITAL		8.39%	7.71%	7.71%	Assuming company's current WACC which is higher than the market values. FB has low debt. Placed global values for WACC for stable and terminal phase as the company matures and is expected to have lower risk.

# NUMBERS

## FY2013 | Q4

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$10,863	43.08%	\$4,680	\$2,549	\$3,063	-\$514
2	\$14,991	41.06%	\$6,155	\$3,353	\$4,227	-\$874
3	\$20,688	39.04%	\$8,076	\$4,399	\$5,833	-\$1,434
4	\$28,550	37.02%	\$10,569	\$5,757	\$8,050	-\$2,293
5	\$39,399	35.00%	\$13,790	\$7,511	\$11,109	-\$3,598
6	\$51,615	45.00%	\$23,227	\$12,908	\$12,510	\$398
7	\$64,011	45.00%	\$28,805	\$16,327	\$12,693	\$3,634
8	\$74,908	45.00%	\$33,709	\$19,479	\$11,159	\$8,321
9	\$82,423	45.00%	\$37,090	\$21,844	\$7,695	\$14,149
10	\$84,929	45.00%	\$38,218	\$22,931	\$2,566	\$20,365
Terminal year	\$87,511	45.00%	\$39,380	\$23,628	\$5,653	\$17,975

The Value		
Terminal value		385,127
PV(Terminal value)		175,405
PV (CF over next 10 years)		16,526
Value of operating assets	\$	<b>191,931</b>
- Tax due on trapped cash brought back		(100)
+ Cash & Marketable Securities		11,449
Value of firm	\$	<b>203,280</b>
- Debt value of lease		(1,087)
- Total Interest Bearing Debt		(476)
- Preferred Stock		-
Market Value of Equity	\$	<b>201,717</b>
- Options outstanding		(1,139)
Value of Equity in Common Stock	\$	<b>200,578</b>
Number of shares (primary)		2,550
Intrinsic Equity Value per share	\$	<b>78.67</b>



**69.47%**  
PRICE AS % OF VALUE



FISCAL YEAR  
**2012**

---

# **Q4 Results**

January – December 2012

# Narrative | Segment Drivers

FY2012 | Q4

## Advertising (+36%)

32% increase in the number of ads delivered

3% increase in the average price per ad

Mobile advertising revenue was 11% of total ad revenue.

- ↑ User growth
- ↑ Introduction of News Feed increased # ads per user
- ↓ Increase in mobile usage where fewer ads are shown
- ↑ Increase of price/ ad in the US due to the use of News Feed ads.
- ↓ Increase in ads delivered in Asia and Rest of the World where the price per ad is lower.

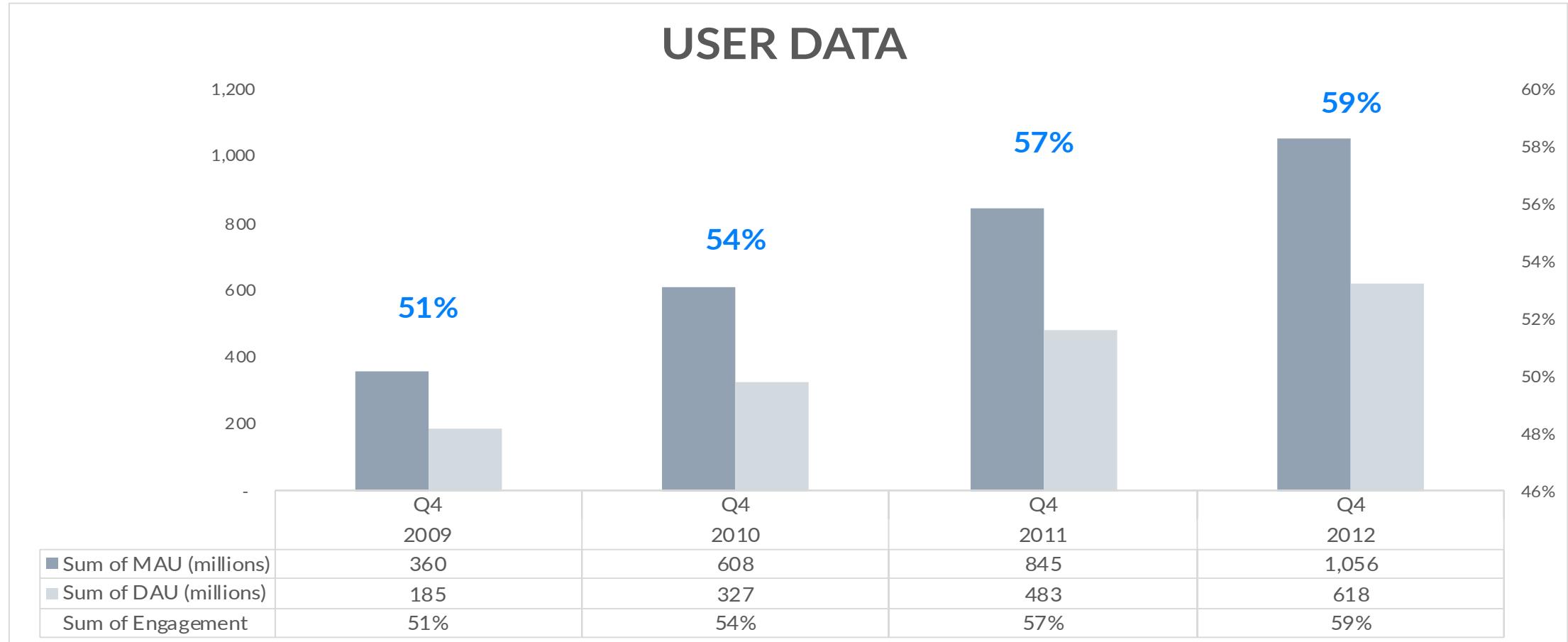
## Payments and Other Fees (+45%)

Adoption of Facebook Payments by developers

- ↑ Became mandatory for all game developers accepting payments on Facebook Platforms on July 2011.

# Narrative | User Data

FY2012 | Q4



Worldwide Mobile MAUs grew +57% to 680M with increases in all regions through this channel. Out of these, ~157M accessed FB solely through mobile.

\*\*User data only includes FB and Messenger information. Instagram is not included in these numbers

# Narrative | General Information

FY2012 | Q4

## COMPANY OUTLOOK

- 3 Main Strategy Points:
  - Build the Best Mobile Product | Build Platforms in services that leverages on the social graph | Build a strong monetization platform engine.
  - Facebook has a full-on focus on making mobile-first experiences that will increase engagement.
  - Biggest driver for growth was News Feed ads which are featured both in desktop and mobile.
- Working with companies like Nielsen and Datalogix in order to prove ad effectiveness as well as working with clients directly in order to better calculate their ROI.
- Launches includes Gifts (allow users to send gifts to friends) as well as Graph Search which create more revenue opportunities.

## OTHER RELEVANT INFORMATION

- ~ $\frac{1}{4}$  of the time spent on apps is owned by FB.
  - 23% in Facebook | 3% in Instagram
- User privacy data concerns start to rise as it treads a fine line between using consumer data to attract marketer dollars while living up to its promises to users and regulators to keep that data private.<sup>7</sup>
- Facebook rolls out the biggest social network mobile-advertising campaign along side Wal-Mart for the holiday shopping season with strong results. This was replicated with Samsung where in a campaign for Galaxy S III smartphone, Samsung saw about a 13 times ROI.<sup>8</sup>
- The smartphone and tablet market is growing significantly in shipments signaling in the increase in the use of these type of devices.

# Assumptions

FY2012 | Q4

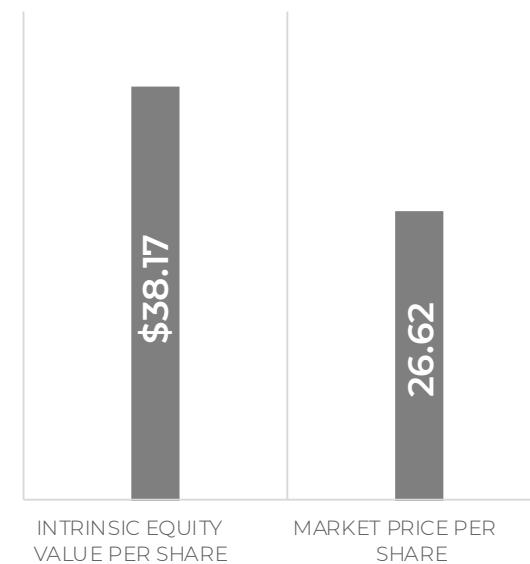
	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$5,089	40.00%	1.78%	1.78%	Facebook continues to grow at a high pace, even though it has already begun to decelerate from its prior years. Different from its situation during its IPO, FB has placed all its focus on building mobile first products and has launched News Feed ads which have a higher price than normal ads as well as higher effectiveness, being this the largest driver for growth since its launch. With this new full focus on mobile and the proven results that the company has already demonstrated so far, the growth in the high phase was increased to 40%.
OPERATING MARGIN	33.05%	33.05%	40.00%	40.00%	Maintaining current operating margin for growth phase as company continues to heavily invest in its future growth through headcount increases, especially in R&D. Company also heavily investing in Capex in order to build a more robust datacenter infrastructure. Increasing to 40% in stable phase as the company matures and becomes more efficient.
TAX RATE	40.00%	40.00%	40.00%	40.00%	Converging to US Marginal Tax of 40%. Base Year Tax overridden to equal US tax rate as it is uncommonly high due to non-deductible share-based compensation and losses outside the US jurisdiction where they do not receive tax benefit as well as expiration of federal tax credit for R&D activities. Since on January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted, and this includes a reinstatement of federal R&D credit, this percentage should decrease.
REINVESTMENT	Sales to capital ratio =	0.66	RIR =	13.51%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	2.36%	Marginal ROIC =	24.83%	13.18%	Increased Sales to Capital Ratio for Stable Phase to industry average of 1.39 assuming that as the company matures, their investments will be more efficient. This increases Marginal ROIC for stable phase.
COST OF CAPITAL		9.06%	8.18%	8.18%	Assuming cost of capital of the industry for Growth Phase and stabilizing at 8.19% which is current cost of capital for the company as it matures.

# NUMBERS

## FY2012 | Q4

	The Cash Flows					
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$7,125	33.05%	\$2,354	\$1,413	\$3,064	-\$1,651
2	\$9,974	33.05%	\$3,296	\$1,978	\$4,290	-\$2,312
3	\$13,964	33.05%	\$4,615	\$2,769	\$6,006	-\$3,237
4	\$19,550	33.05%	\$6,461	\$3,876	\$8,408	-\$4,532
5	\$27,370	33.05%	\$9,045	\$5,427	\$11,771	-\$6,344
6	\$36,226	40.00%	\$14,490	\$8,694	\$6,367	\$2,327
7	\$45,178	40.00%	\$18,071	\$10,843	\$6,436	\$4,406
8	\$52,889	40.00%	\$21,155	\$12,693	\$5,544	\$7,149
9	\$57,873	40.00%	\$23,149	\$13,889	\$3,584	\$10,306
10	\$58,903	40.00%	\$23,561	\$14,137	\$741	\$13,396
Terminal year	\$59,952	40.00%	\$23,981	\$14,388	\$1,943	\$12,445

The Value		
Terminal value		194,477
PV(Terminal value)		83,684
PV (CF over next 10 years)		4,698
Value of operating assets	\$	88,382
- Tax due on trapped cash brought back		(88)
+ Cash & Marketable Securities		9,626
Value of firm	\$	97,920
- Debt value of lease		(1,470)
- Total Interest Bearing Debt		(2,356)
- Preferred Stock		-
Market Value of Equity	\$	94,095
- Options outstanding		(3,167)
Value of Equity in Common Stock	\$	90,928
Number of shares (primary)		2,382
Intrinsic Equity Value per share	\$	38.17



**69.74%**  
PRICE AS % OF VALUE



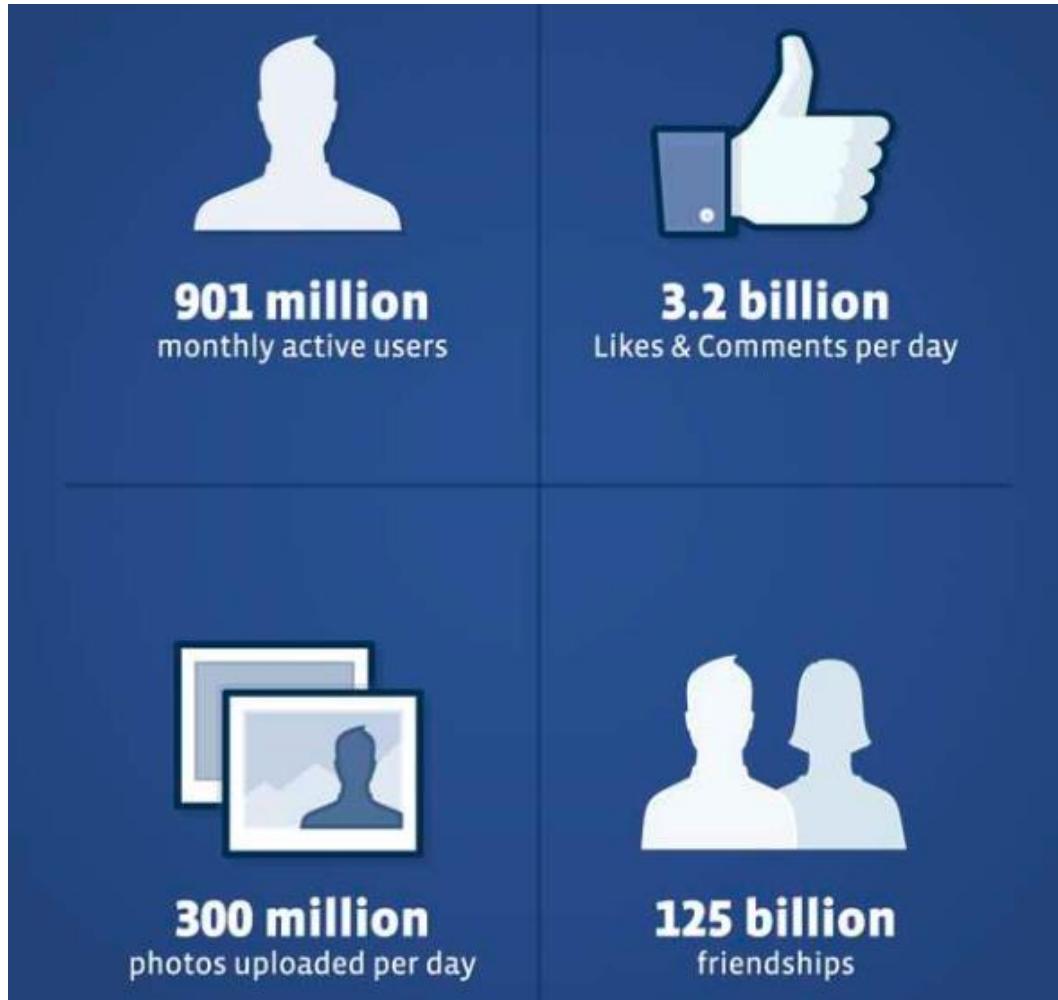
FISCAL YEAR  
**2011**

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# **FB IPO**

January – December 2011

# Facebook General Information



## MISSION

Make the World a more open and connected.

## Facebook serves:

- USERS: people who use FB to stay connected with friends and family, discover what is going in the world and share and express what matters to them.
- DEVELOPERS: build apps and websites that integrate with FB to reach their global network of users and build products that are more personalized, social and engaging.
- ADVERTISERS: FB offers a unique combination of reach, relevance, social context, and engagement to enhance the value of their ads.

# Facebook General Information

\$38

IPO price/ share

Price specified in S-1 ranges from \$34-\$38.

Average of \$36 was used to determine IPO expected proceeds.

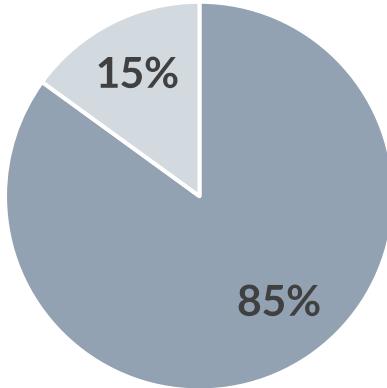
Stock Classes

Class A Common Stock  
1 vote per share

Class B Common Stock  
10 votes per share

## REVENUE BY SEGMENT

■ Advertising revenue      ■ Payment & other fees revenue



According to IDC report, 2010 ad spending was 588 billion.

Addressable market includes portions of many existing ad markets (online - including mobile - and offline)

- Current strategy for growth includes expanding to markets like Brazil where they have low penetration.
- They believe that mobile usage of FB is critical to maintaining user growth and engagement over the long term, so they see mobile as an opportunity even if they haven't yet figured out how to monetize it.
- Acquisition of Instagram for \$1B.
- Currently investing in datacenter infrastructure since April 2011 in order to serve their users better. Will continue with this strategy in the foreseeable future.

# Major Risk Factors

User shift towards Mobile while FB still does not monetize the channel

Total dependency on Mark Zuckerberg's criteria as he has 55.8% of voting rights

Share-based compensation is the normal practice for the company which will dilute the value

Advertising which is Facebook's main revenue stream is a highly competitive sector with low switching costs for clients and low barriers to entry

Challenges measuring user metrics which can lead to loss of faith from advertisers and developers which would result in lower revenues

# NEWS RELATED TO IPO

## Facebook Buys Instagram for \$1 Billion

BY EVELYN M. RUSLI APRIL 9, 2012 1:15 PM 36

2:02 p.m. | Updated

Facebook is not waiting for its initial public offering to make its first big purchase.

In its largest acquisition to date, the social network has purchased Instagram, the popular photo-sharing application, for about \$1 billion in cash and stock, the company said Monday.

It's a notable move for Facebook, which has exclusively focused on bite-size acquisitions, worth less than \$100 million.



Keith Bedford/Bloomberg News  
Kevin Systrom, chief executive of Instagram.

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## In Facebook Deal, Board Was All But Out of Picture

By Shayndi Raice, Spencer E. Ante and Emily Glazer

Updated April 18, 2012 3:22 pm ET

SAVE PRINT TEXT

On the morning of Sunday, April 8, Facebook youthful chief executive, [Mark Zuckerberg](#), alerted his board of directors that he intended to buy Instagram, the hot photo-sharing service.

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## GM Says Facebook Ads Don't Pay Off



GM to Stop Advertising on Facebook

General Motors plans to stop advertising on Facebook after the company's marketing executives determined their paid ads had little impact on consumers. Sharon Terlep has details on The News Hub. Photo: Getty Images.

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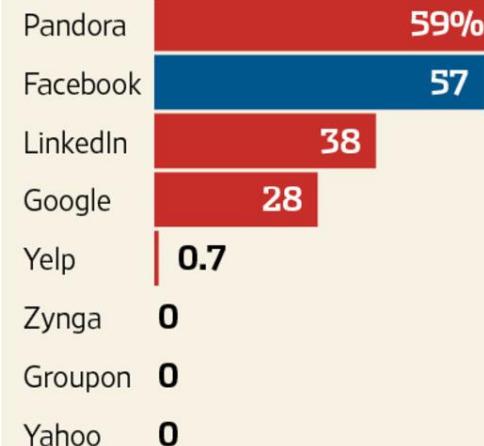
## Facebook Insiders Boost Plans to Cash Out in IPO



Longtime Holders Are Cashing Out of Facebook

## Cashing Out

A look at how selling by private holders in Facebook's IPO compares with other Internet offerings. Percentage of IPO shares sold by private holders.



Note: Share 'overallotments' aren't counted  
Source: Dealogic The Wall Street Journal

# Historical Sales & Users

## REVENUE

*millions USD*

+88%

+154%

777

1,974

3,711

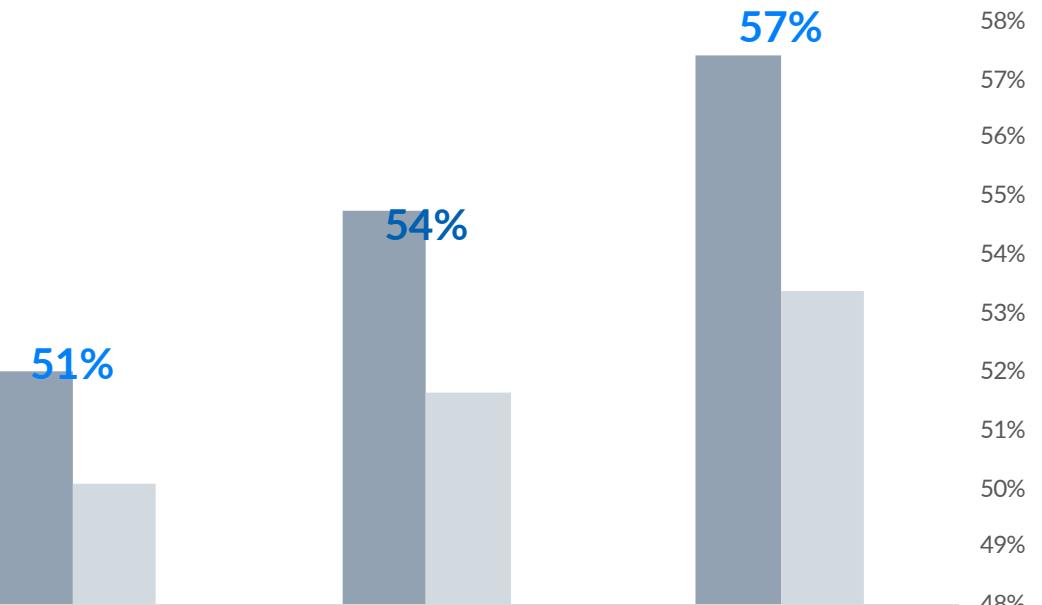
2009

2010

2011

Increased mobile usage was stated by the company to be a major contributor of both increases in MAU and DAU. The number of users in the platform is a key driver of the company's results as they become a more attractive advertising tool when more users join. When comparing 2011 to 2010 YoY growth, Mobile MAU grew 76% vs 39% YoY overall MAU growth.

## USER DATA



2009-2011 MAU CAGR = 53.21%

# Narrative | Segment Drivers

FY2011 | FB IPO

Advertising  
(+69%)

42% increase in the  
number of ads delivered

↑ User growth

↑ Product Changes that increased # of ads per page.

↓ Increase in mobile usage where no ads are shown

18% increase in the  
average price per ad

↑ Improvement in ability to delivery more relevant  
ads to users

↑ Product changes that contributed to higher user  
interaction with ads

Payments  
and Other  
Fees  
(+425%)

Adoption of Facebook  
Payments by developers

↑ Became mandatory for all game developers  
accepting payments on Facebook Platforms on  
July 2011.

↑ Factors driving growth.

↓ Factors that offset growth.

# Assumptions

FY2011 | FB IPO

	BASE YEAR	GROWTH PHASE	STABLE PHASE	TERMINAL	LINK TO NARRATIVE
REVENUE	\$3,711	36.00%	1.89%	1.89%	<p>Facebook has had past high growth especially through its advertising business, but this kind of growth is not sustainable to maintain in the future.</p> <p>As of today, FB is facing an important milestone as users shift towards mobile and it has yet to find a way in which they can monetize the shift of users. Along with this, skepticism has formed around the real ability of FB advertising generating sales for its clients as big players like GM have announced they will withdraw their spending on the platform. Still the company has high potential to continue growing in the coming years therefore the CAGR for the first 5 years post IPO of Google were taken as a reference in order to assign the % for the growth phase, later stabilizing it at the risk-free rate.</p>
OPERATING MARGIN	54.53%	40.00%	40.00%	40.00%	<p>Company is currently investing heavily in R&amp;D which increase personnel costs as well as increase in operating cost for datacenters as they shift to own them, therefore decreasing operating margin in the future. Google average was 33% therefore assuming will have higher margins than Google due to current results.</p>
TAX RATE	41.00%	41.00%	40.00%	40.00%	Converging to US Marginal Tax of 40%.
REINVESTMENT	Sales to capital ratio =	0.91	RIR =	15.39%	Maintaining current sales to capital for Growth Phase.
RETURN ON CAPITAL	29.21%	Marginal ROIC =	26.09%	12.28%	<p>Increased Sales to Capital Ratio for Stable Phase to industry average of 1.4 assuming that as the company matures, their investments will be more efficient. This increases Marginal ROIC for stable phase.</p>
COST OF CAPITAL		11.02%	7.28%	7.28%	Assuming cost of capital of the industry for Growth Phase and stabilizing at 7.3% which is current cost of capital for the company as it matures.

# NUMBERS

## FY2011

### FB IPO

The Cash Flows						
	Revenues	Operating Margin	EBIT	EBIT(1-t)	Reinvestment	FCFF
1	\$5,047	51.62%	\$2,605	\$1,537	\$1,471	\$66
2	\$6,864	48.72%	\$3,344	\$1,973	\$2,001	-\$28
3	\$9,335	45.81%	\$4,276	\$2,523	\$2,722	-\$199
4	\$12,695	42.91%	\$5,447	\$3,214	\$3,701	-\$488
5	\$17,266	40.00%	\$6,906	\$4,075	\$5,034	-\$959
6	\$22,304	40.00%	\$8,921	\$5,281	\$3,602	\$1,680
7	\$27,290	40.00%	\$10,916	\$6,484	\$3,565	\$2,919
8	\$31,529	40.00%	\$12,612	\$7,516	\$3,031	\$4,486
9	\$34,276	40.00%	\$13,710	\$8,199	\$1,964	\$6,235
10	\$34,924	40.00%	\$13,969	\$8,382	\$463	\$7,919
Terminal year	\$35,584	40.00%	\$14,233	\$8,540	\$1,314	\$7,226

The Value	
Terminal value	133,960
PV(Terminal value)	52,152
PV(CF over next 10 years)	9,048
Value of operating assets \$	61,200
- Tax due on trapped cash brought back	(78)
+ Cash & Marketable Securities	3,908
Value of firm \$	71,431
- Debt value of lease	(1,344)
- Total Interest Bearing Debt	(677)
- Preferred Stock	(615)
Market Value of Equity \$	68,794
- Options outstanding	(9,701)
Value of Equity in Common Stock \$	59,094
Number of shares (primary)	2,583
Intrinsic Equity Value per share \$	22.88



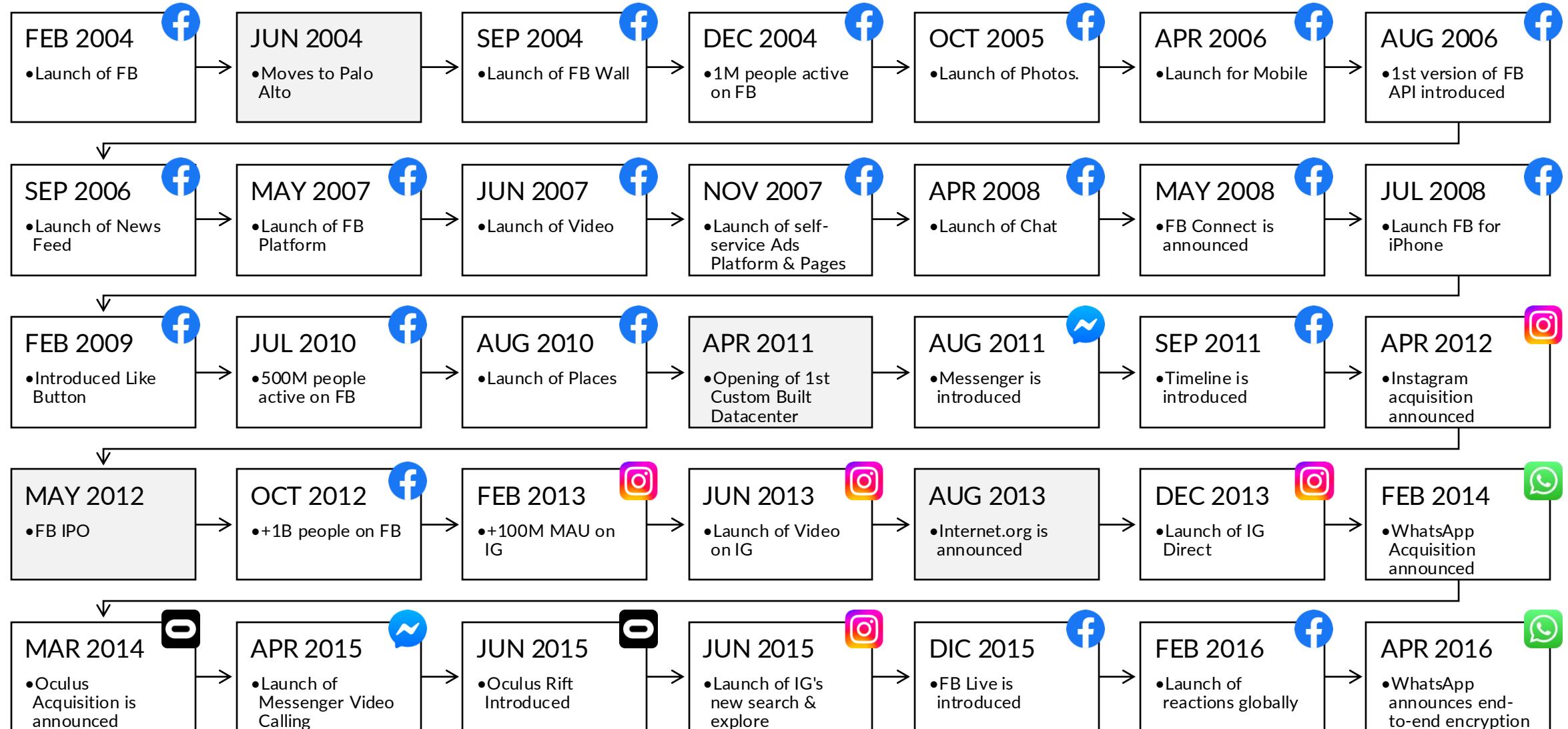
**166.08%**  
PRICE AS % OF VALUE

# APPENDIX



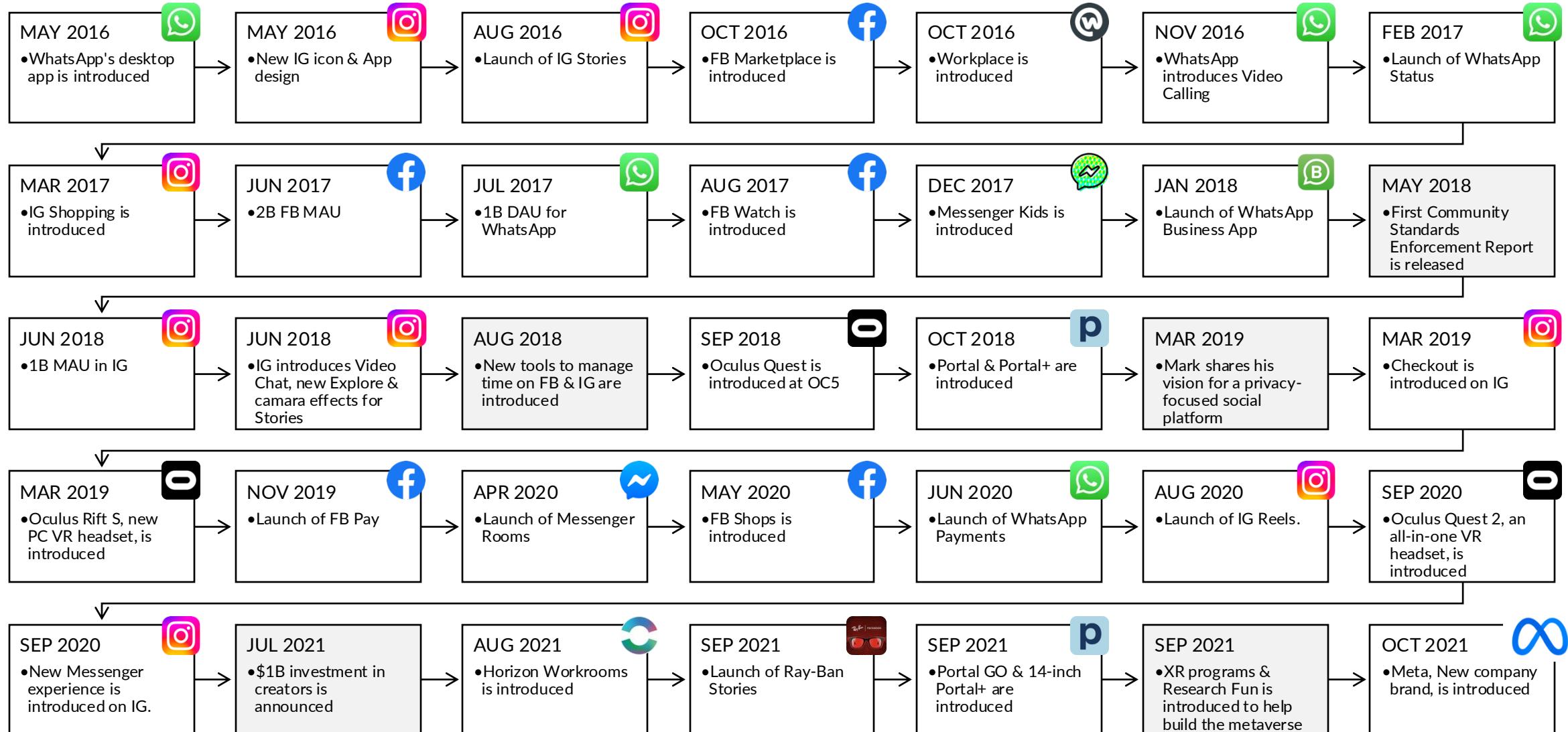
# META PLATFORMS – COMPANY HISTORY

Source: [https://about.meta.com/company-info/?utm\\_source=about.facebook.com&utm\\_medium=redirect](https://about.meta.com/company-info/?utm_source=about.facebook.com&utm_medium=redirect)



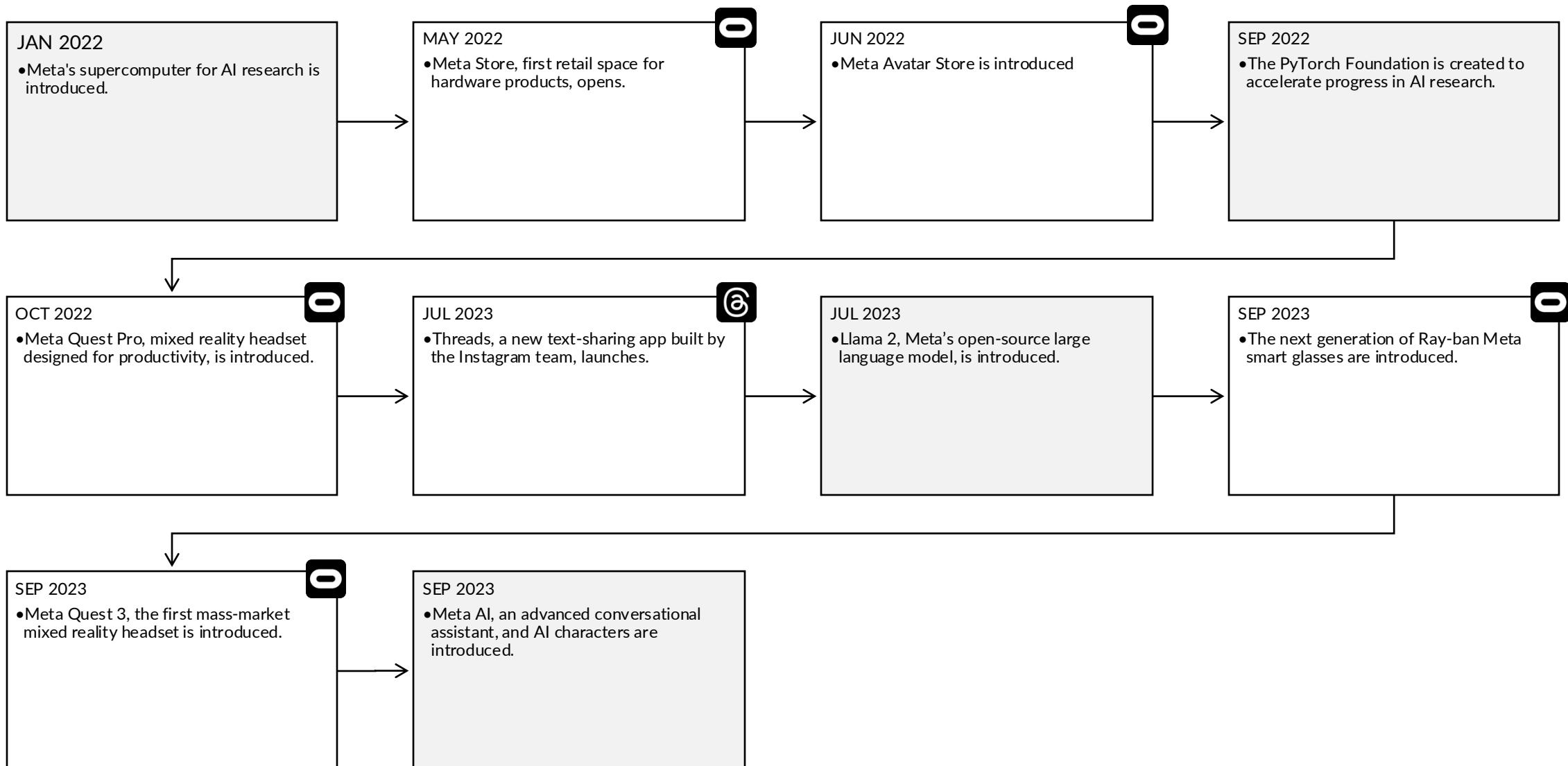
# META PLATFORMS – COMPANY HISTORY

Source: [https://about.meta.com/company-info/?utm\\_source=about.facebook.com&utm\\_medium=redirect](https://about.meta.com/company-info/?utm_source=about.facebook.com&utm_medium=redirect)



# META PLATFORMS – COMPANY HISTORY

Source: [https://about.meta.com/company-info/?utm\\_source=about.facebook.com&utm\\_medium=redirect](https://about.meta.com/company-info/?utm_source=about.facebook.com&utm_medium=redirect)



# Mark Zuckerberg

Co-Founder | CEO  
Executive Chairman | Controlling Shareholder



BORN

May 14, 1984  
White Plains, NY

Began using computers and writing software in middle school.

In high school, built a program that allowed all computers between his house and his father's dental office to communicate with each other.

During his high-school years, he worked to build a music player called Synapse Media Player, a device that used machine learning to learn the user's listening habits.

Wrote a program in his sophomore year of college called CourseMatch, which allowed users to make class selection decisions based on the choices of other students and help them form study groups.

A short time later, he created a program initially called Facemash that let students select the best-looking person from a choice of photos. It was shut down by the college because its popularity overwhelmed one of Harvard's network switches and many students complained their photos were being used without permission.

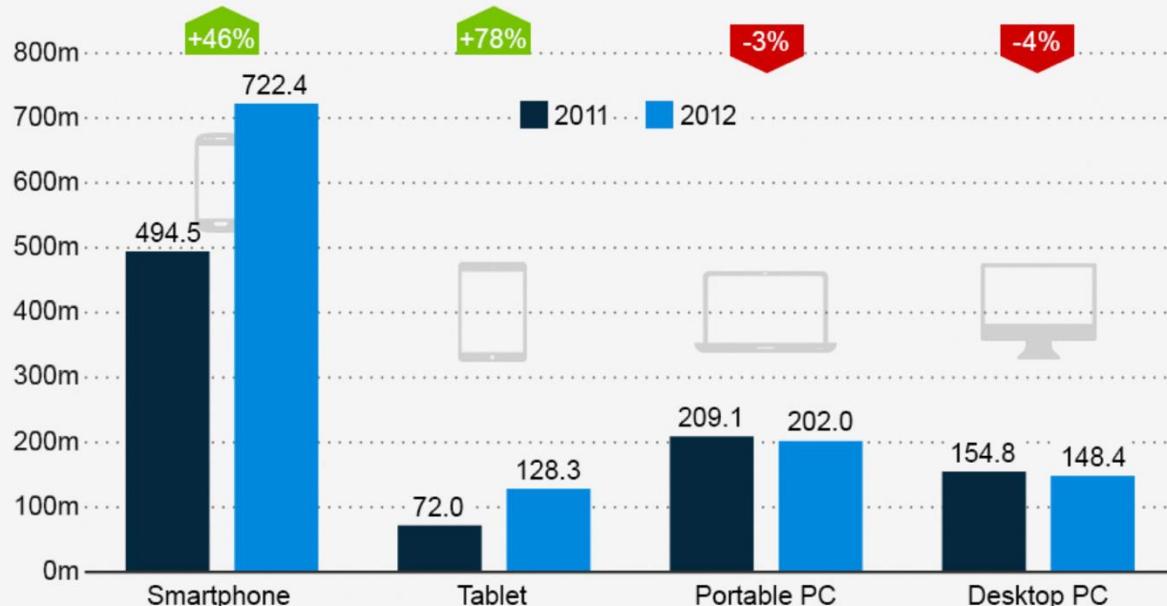
In January 2004, he began writing code for a new website which launched on February 4, 2004, in partnership with his roommates. This website was known as "TheFacebook".

The site started just as a "Harvard thing" until he decided to spread it to other schools, beginning with Columbia, NYU, Stanford, Dartmouth, Cornell, University of Pennsylvania, Brown and Yale. Zuckerberg dropped out in his sophomore year to complete the project, moving to Palo Alto, California and leasing a small house with his co-founders as an office.

# The Global Tablet Market Grows 78% in 2012

## The Global Tablet Market Grows 78% in 2012

Global shipments of smart connected devices in 2011 and 2012 (in million units)



In 2012, global Smartphone shipments grew 46 percent to 722 million units, i.e. smartphone shipments more than tripled since 2009, when 174 million units were shipped. The tablet market too, did very well in the past year. Total shipments reached 128 million units, a 78 percent increase over 2011. The average selling price of tablets declined 15 percent to \$461, mainly due to the success of lower-priced 7-inch tablets.



# WHATSAPP BACKGROUND

Source: "Jan Koum." Wikipedia, Wikimedia Foundation, 14 Sept. 2022, [https://en.wikipedia.org/wiki/Jan\\_Koum](https://en.wikipedia.org/wiki/Jan_Koum).

FOUNDER PROFILE  
JAN KOUM



BORN

February 24, 1976  
Kyiv, Ukrainian SSR

OCCUPATION

Businessman/  
Computer Engineer

Fled Soviet Ukraine at the age of 16 with his mother and moved to Mountain View, California.

Became interested in programming by the age of 18.

Enrolled at San Jose State University and simultaneously worked at Ernst & Young as a security tester.

Joined w00w00, a computer security think tank started in 1996.

Met Brian Acton in 1997 while working at Ernst & Young and was hired at Yahoo later that year as an infrastructure engineer.

Quit school shortly after joining Yahoo.

Worked together with Acton at Yahoo for the next 9 years.



# WHATSAPP BACKGROUND

Source: "Jan Koum." Wikipedia, Wikimedia Foundation, 14 Sept. 2022, [https://en.wikipedia.org/wiki/Jan\\_Koum](https://en.wikipedia.org/wiki/Jan_Koum).

FOUNDER PROFILE  
BRIAN ACTON



Grew up in Michigan, later moving to Central Florida.

Received a full scholarship to study engineering in the University of Pennsylvania but left after a year to study at Stanford, where he graduated in 1994 with a degree in computer science.

Became system administrator for Rockwell International, before becoming product tester at Apple and Adobe.

Joined Yahoo in 1996.

BORN

1972  
Michigan, US

OCCUPATION

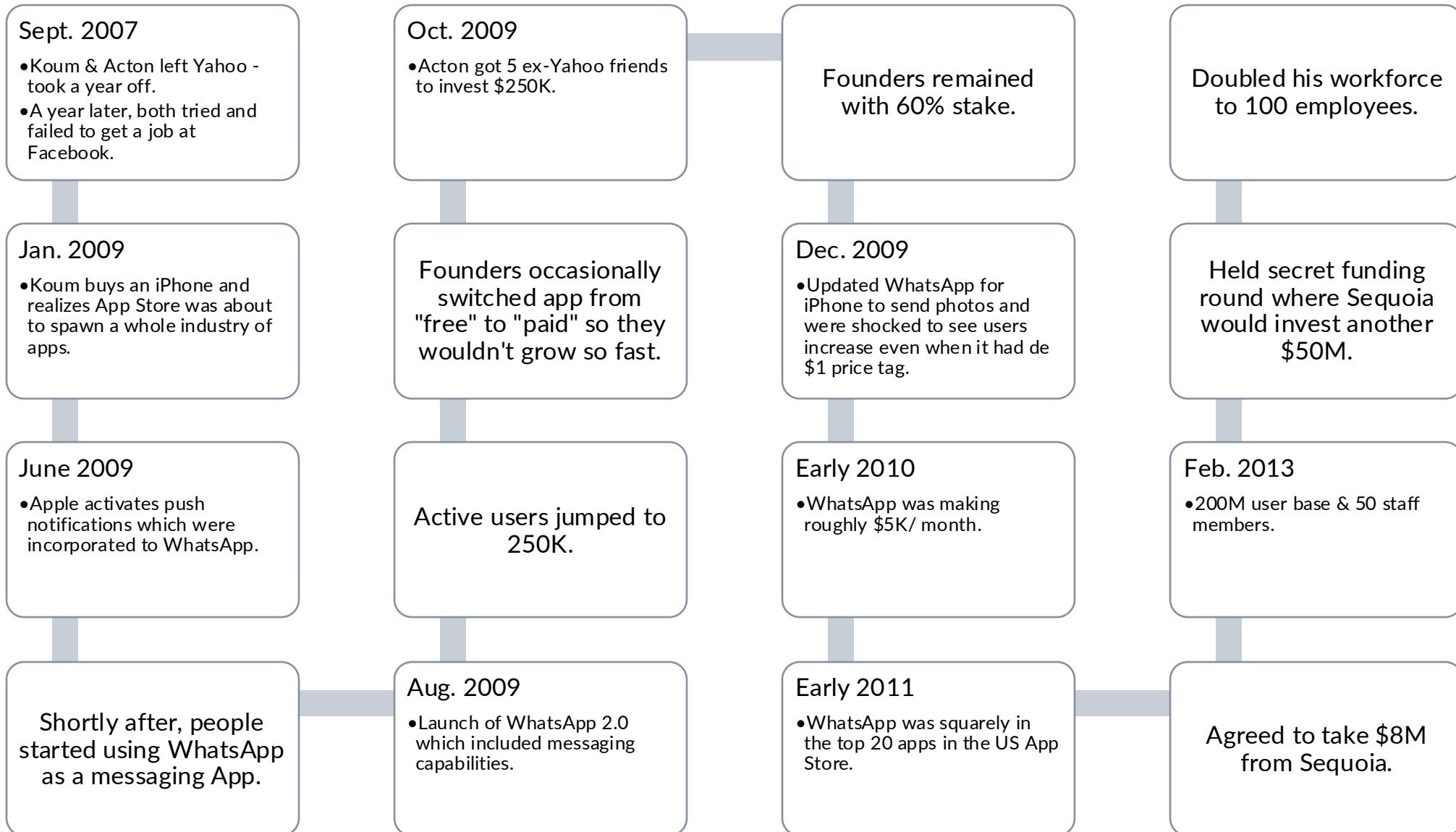
Computer  
Programmer/  
Internet  
Entrepreneur

Invested in the dot com boom and lost millions of dollars in the dot-com bubble of 2000.



# WHATSAPP BACKGROUND

Source: Olson, Parmy. "Exclusive: The Rags-to-Riches Tale of How Jan Koum Built Whatsapp into Facebook's New \$19 Billion Baby." *Forbes*, Forbes Magazine, 23 Apr. 2014, [Link](#).





# OCULUS BACKGROUND

Source: "Palmer Luckey." Wikipedia, Wikimedia Foundation, 04 Oct. 2022, [https://en.wikipedia.org/wiki/Palmer\\_Luckey](https://en.wikipedia.org/wiki/Palmer_Luckey).



## BORN

September 19,  
1992  
California, US

## OCCUPATION

Entrepreneur

## FOUNDER PROFILE PALMAR LUCKEY

Was homeschooled by his mother and had an intense interest in electronics & engineering.

During his childhood and teenage years, experimented with a variety of complex electronics projects including railguns, Tesla coils and lasers.

Built a PC gaming "rig" worth tens of thousands of US dollars with elaborate six-monitor setup.

His desire to immerse himself in computer-generated worlds led to an obsession with virtual reality.

In 2009, founded ModRetro Forum with a friend, creating an online community for "portabilization", hobby that revolves around turning old hardware devices into self-contained portable units mixing new and old technology.

Attended California State University where he majored in journalism. Also worked part-time as an engineer in the Mixed Reality Lab (MxR) at the Institute for Creative Technologies as part of the design team for cost-effective VR systems for BRAVEMIND (US Army Research Laboratory effort to treat veterans suffering from PTSD).

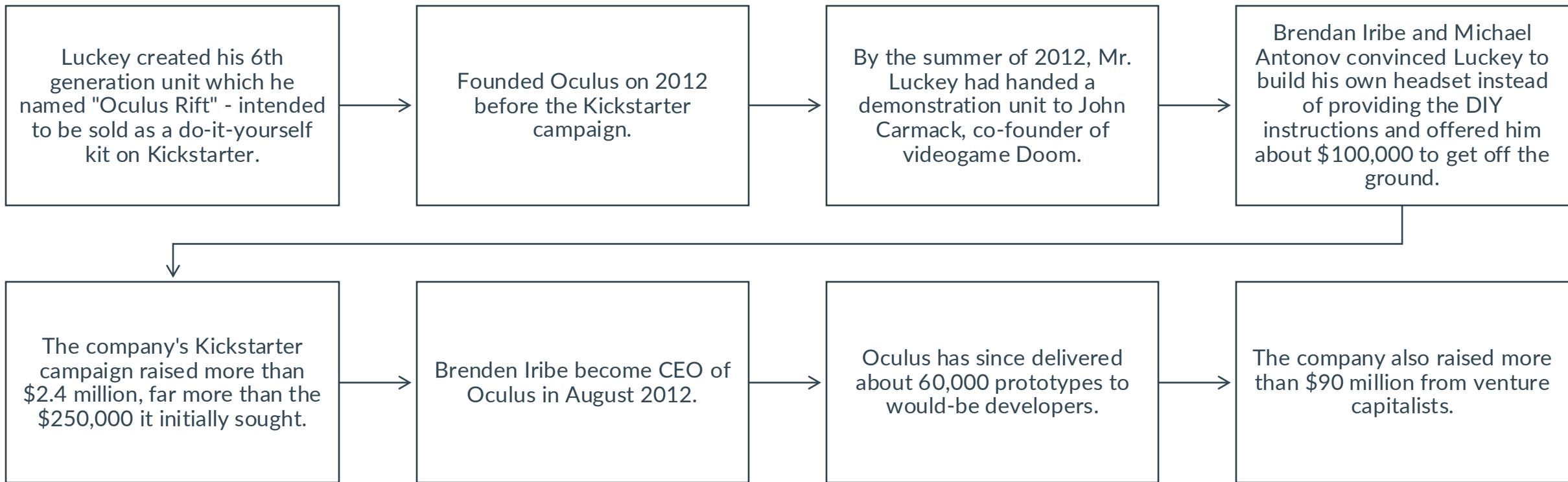
Began building VR headsets of own design in 2009 at age of 16. Completed his first prototype in 2010. Ultimately built more than 50 head-mounted displays.

To fund his prototypes, earned US\$36,000 by fixing and reselling damaged iPhones and working part-time as a groundskeeper, youth sailing coach, and computer repair technician.

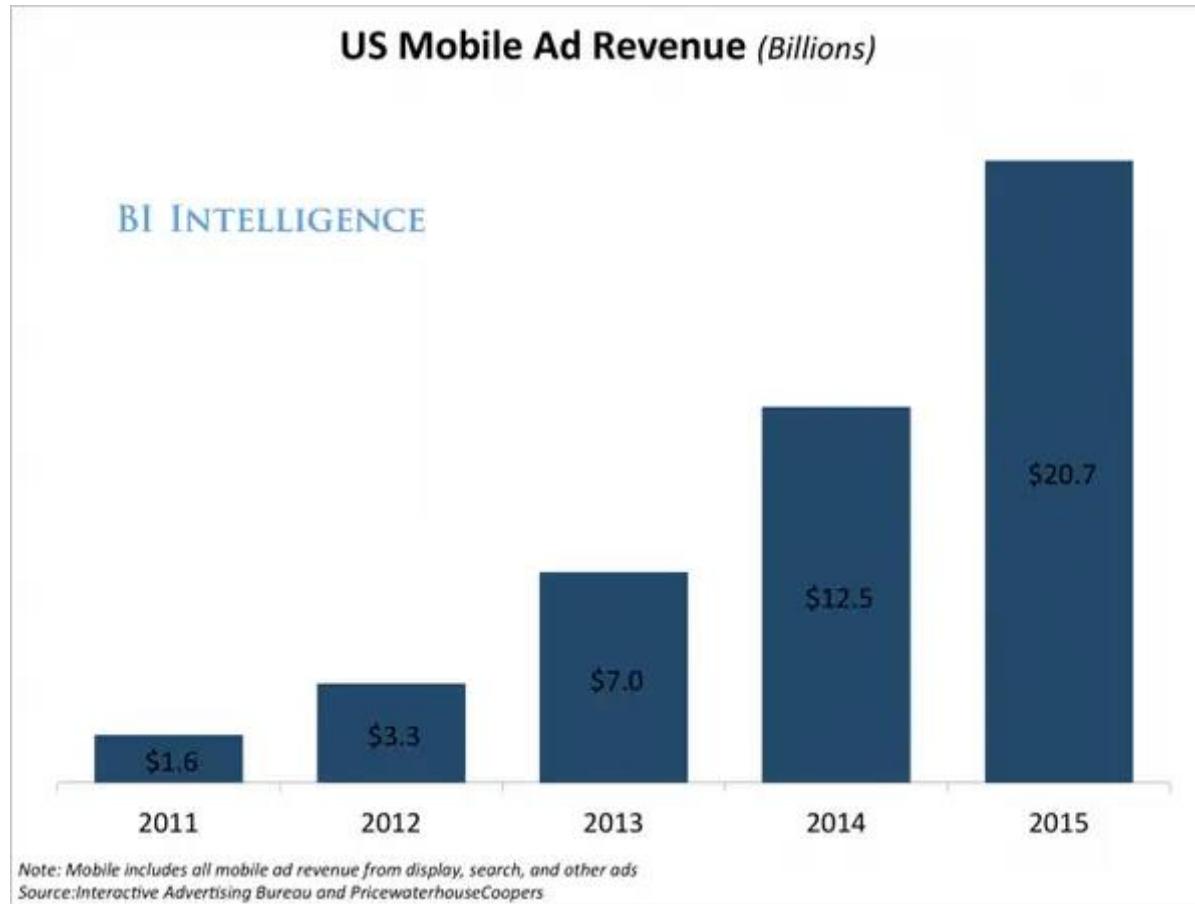


# OCULUS BACKGROUND

Source: Sherr, Ian. "How Oculus Goggles Became More than a Virtual Reality." *The Wall Street Journal, Dow Jones & Company*, 27 Mar. 2014, [Link](#).  
"Plamer Luckey." Wikipedia, Wikimedia Foundation, 04 Oct. 2022, [https://en.wikipedia.org/wiki/Palmer\\_Luckey](https://en.wikipedia.org/wiki/Palmer_Luckey).



# Mobile and social ad spend grow dramatically in 2015



Digital ad revenues totaled \$59.6 billion in 2015, a 20% increase on the \$49.5 billion reported in 2014. Mobile made up \$20.7 billion, or nearly 35%, of total digital ad revenues in 2015.

Social media ad revenue grew substantially in 2015, particularly during the second half of the year. Ads delivered on social platforms (social networking, gaming, and apps) across all devices totaled \$10.9 billion for 2015, up from \$7 billion in 2014. Social ad spend particularly increased by \$2 billion from the first to second half of 2015. The first half of 2015 recorded social ad revenues of \$4.4 billion, compared to \$6.4 billion during the second half of the year.

Source: [Business Insider](#)

# MARK ZUCKERBERG TESTIFIES ON CAPITOL



[Click for Full Video](#)

On April 10, 2018, the US Congress held a hearing with Facebook's CEO, Mark Zuckerberg, regarding the Cambridge Analytica scandal. The hearing discussed Facebook's responsibility to protect user information and how they plan to prevent this type of breach from happening again.

The Congress also pointed out that Facebook's users do not have enough information to decide how their data is shared, and that the company knew about these breaches since 2015 but did not act until this moment.

Zuckerberg admitted that Facebook did not do enough to protect user data and promised to investigate every app that had access to information before it was locked in 2014 and to limit data that developers have access to in the future. He also mentioned that the company is using AI tools to identify terrorist content, hate speech, and fake accounts, and will require all people who place political ads to identify themselves.

Finally, the Congress asked Zuckerberg about the possibility of Facebook users paying to not use their information for ads, to which Zuckerberg replied that people would rather have relevant ads than irrelevant ads, and that currently, Facebook does not offer a paid version.

Zuckerberg admitted that Facebook needs to take a more proactive approach in policing the system and be more transparent with consumers. The Congress suggested that legislation and regulation should be simple and practical, give people complete control, and enable innovation, and that political ad placers and page organizers should identify themselves.

Additionally, the hearing discussed Messenger Kids, a new app for children, and the concern of cross-device tracking

# THE FACEBOOK DILEMMA – PART ONE



[Click for Full Video](#)

In an early interview, Mark Zuckerberg expressed that he believed people were too careful and that it was better to take risks, leading to the motto "Move fast and break things." Facebook was built on the idea of giving people the ability to share and connect, and the company was focused on growth and engagement. The unique experience offered to each user in their newsfeed was powered by the algorithm, which was based on data collected from the like button. Facebook was not initially concerned with the possibility of false information taking the same relevance as the truth, and the site relied on the public's common sense and decency to police itself.

Facebook's use as a platform for activism was demonstrated during the protests in Egypt and Tunisia, but the company was also accused of being dangerous when rumors began to spread. Governments and reporters began expressing concerns about the platform's ability to manage such a massive volume of content. Facebook faced additional criticism as it began to collect data on its users' activity outside of the platform in order to boost its advertising revenue. The lack of concern for privacy and the lack of oversight on third-party apps led to the FTC becoming concerned with Facebook's deceptive conduct. Overall, Facebook's focus on growth and revenue overshadowed the importance of security and privacy.

# THE FACEBOOK DILEMMA – PART TWO



[Click for Full Video](#)

The documentary "The Facebook Dilemma" explores the role of Facebook in the 2016 US presidential election, as well as its impact on democracies around the world. Facebook's ability to target ads and its role as a primary source of news for many Americans made it an attractive tool for political campaigns. However, its algorithmic approach to editing content made it easy for fake news to spread and for political polarization to intensify.

The documentary highlights the case of Macedonia, where fake news websites were created as a way to generate advertising revenue. This led to sensational headlines, such as "Pope endorses Trump," going viral and receiving more engagement than legitimate news stories. The documentary also examines the role of Facebook in countries such as the Philippines and Myanmar, where it has been accused of contributing to political polarization and even genocide.

While Facebook has taken steps to address these issues, including hiring more local staff and focusing on privacy and security, the documentary suggests that as long as Facebook continues to be successful, it will not see the need to fully address these problems. Facebook's idealistic vision of its platform being used for good clashes with the reality of its impact on democracies around the world.

# THE FACEBOOK FILES



[Click for Full Report](#)

Facebook Inc. knows, in acute detail, that its platforms are riddled with flaws that cause harm, often in ways only the company fully understands. That is the central finding of a Wall Street Journal series, based on a review of internal Facebook documents, including research reports, online employee discussions and drafts of presentations to senior management.

Time and again, the documents show, Facebook's researchers have identified the platform's ill effects. Time and again, despite congressional hearings, its own pledges and numerous media exposés, the company didn't fix them. The documents offer perhaps the clearest picture thus far of how broadly Facebook's problems are known inside the company, up to the chief executive himself.

# THE FACEBOOK FILES

Facebook has been found to have granted special treatment to millions of high-profile users via a program known as XCheck. According to internal documents seen by the Wall Street Journal, some users are "whitelisted", meaning they are immune from enforcement actions, while others are allowed to post rule-violating content pending review by Facebook employees that never materializes. Despite Facebook's attempts to rein it in, XCheck grew to include at least 5.8 million users in 2020. The system was found to be so flawed that Facebook's own researchers described it as "a breach of trust".

The screenshot shows a news article from The Wall Street Journal. The title is "Facebook Says Its Rules Apply to All. Company Documents Reveal a Secret Elite That's Exempt." Below the title, a subtext reads: "A program known as XCheck has given millions of celebrities, politicians and other high-profile users special treatment, a privilege many abuse". The author is Jeff Horwitz, and the date is Sept. 13, 2021 10:21 am ET. There are options to save, share, or text. The article has 1,024 responses. A button for "Listen to article (25 minutes)" and a "Queue" button are also visible. The first paragraph of the article starts with "Mark Zuckerberg has publicly said Facebook Inc. allows its more than three billion users to speak on equal footing with the elites of politics, culture and journalism, and that its standards of behavior apply to everyone, no matter their status or fame."

# THE FACEBOOK FILES

Facebook conducted internal research that found Instagram to be harmful to a significant number of its young users, particularly teenage girls. The research, including focus groups, online surveys, and diary studies, showed that Instagram worsened body image and caused depression and eating disorders. Despite this, Facebook has publicly played down these negative effects and has not made its research available to the public or lawmakers who have requested it. The company's research is proprietary and is "kept confidential to promote frank and open dialogue and brainstorming internally."

The image is a composite of two parts. On the left, there is a screenshot of a news article from The Wall Street Journal. The header reads "THE WALL STREET JOURNAL." Below the header, there is a small logo for "the facebook files" followed by a square icon with a question mark. The main title of the article is "Facebook Knows Instagram Is Toxic for Teen Girls, Company Documents Show". A subtitle below the title reads "Its own in-depth research shows a significant teen mental-health issue that Facebook plays down in public". On the right side of the composite image is a close-up, moody photograph of a young woman with dark hair and brown eyes, looking slightly downwards with a somber expression.

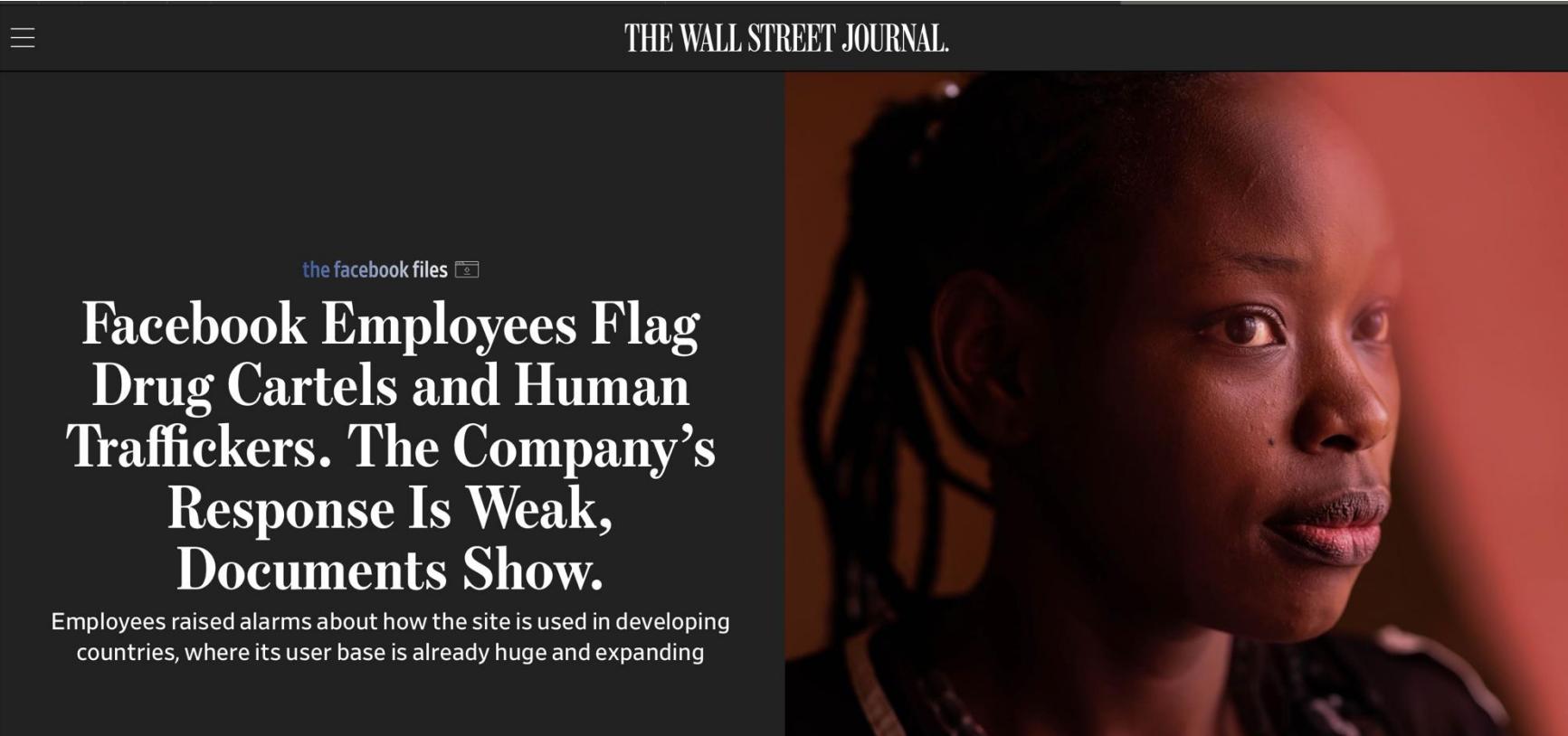
# THE FACEBOOK FILES

BuzzFeed's CEO Jonah Peretti emailed a top official at Facebook blaming the platform's algorithm overhaul for boosting divisive content that publishers produced, thus creating an incentive to produce more of it. Facebook's CEO, Mark Zuckerberg, said the aim of the algorithm change was to improve user well-being, but Facebook's researchers discovered it was making the platform an angrier place by reorienting posts towards outrage and sensationalism. While Facebook's employees discussed potential changes to curb the tendency of the overhauled algorithm to reward outrage and lies, Zuckerberg resisted some of the proposed fixes, the documents show. The recent change in Facebook's algorithm to reduce the amount of political content is part of a broader push to address the growing concern about a decline in user engagement.



# THE FACEBOOK FILES

Internal documents reviewed by The Wall Street Journal reveal that Facebook has failed to prevent human trafficking, armed violence and other abuses of its platform in some developing countries. Employees flagged the use of the platform by human traffickers in the Middle East to lure women into abusive employment situations and by armed groups in Ethiopia to incite violence against ethnic minorities. Facebook has removed some pages, though many more continue to operate, while in some countries, it has few or no people who speak the dialects needed to identify dangerous or criminal uses of the platform.



The image is a composite of two parts. On the left, there is a dark, rectangular area representing a news article from The Wall Street Journal. It features the journal's logo at the top, followed by a small thumbnail labeled "the facebook files". Below the thumbnail is a large, bold, white headline: "Facebook Employees Flag Drug Cartels and Human Traffickers. The Company's Response Is Weak, Documents Show." Underneath the headline is a smaller, white, italicized subtitle: "Employees raised alarms about how the site is used in developing countries, where its user base is already huge and expanding". On the right side of the composite image is a close-up, profile photograph of a woman's face. She is looking slightly to her right with a somber expression. The lighting is dramatic, casting deep shadows on one side of her face and illuminating the other, highlighting her features against a dark background.

# THE FACEBOOK FILES

Internal documents reviewed by The Wall Street Journal show Facebook researchers warned for more than a month that comments on vaccine-related posts were filled with anti-vaccine rhetoric, which could undermine the company's effort to promote vaccines. The wave of negative comments worried global health institutions, including the World Health Organization and Unicef. Facebook's goal of protecting the Covid vaccines was a demonstration of Mark Zuckerberg's faith that his creation is a force for social good. But the effort ended up demonstrating the gulf between his aspirations and the practical reality of the world's largest social platform.

The screenshot shows a news article from The Wall Street Journal. At the top right, it says "THE WALL STREET JOURNAL." On the left, there's a dark sidebar with three horizontal lines and the text "the facebook files". The main title is "How Facebook Hobbled Mark Zuckerberg's Bid to Get America Vaccinated". Below the title is a subtitle: "Company documents show antivaccine activists undermined the CEO's ambition to support the rollout by flooding the site and using Facebook's own tools to sow doubt about the Covid-19 vaccine". The main content area features a close-up photo of a person's eyes. Overlaid on the photo are several white callout boxes containing text and bullet points. One box at the top right says: "Across these samples, anti-vax attitudes appeared in a majority of comments and often held prominent visibility positions in comment threads. This is alarming for at least two reasons." Another box below it says: "First, the majority of people in the United States and the United Kingdom hold pro-vaccine attitudes and intend on getting a vaccine, suggesting that anti-vax sentiment is overrepresented in the comments section." A large callout box on the right side contains two bullet points: "Vaccine hesitancy in comments is rampant." and "Our ability to detect vaccine-hesitant comments is bad, and it's non-existent elsewhere." At the bottom right, another callout box says: "We know that COVID vaccine hesitancy has the potential to cause significant harm. We believe that this compounds the necessity of deploying temporary measures, such as risk-based approaches, and risking over-enforcement. This will minimize harm while we develop more effective long-term approaches, and reduce the risk of problem escalation." The overall layout is clean with a mix of dark and light colors.

# THE FACEBOOK FILES

Facebook has been scrutinized in recent days for targeting young users and creating products for them. Facebook is reportedly interested in tapping into the untapped audience of preteens and has formed teams of employees to study and create products for this demographic. Internal documents reviewed by The Wall Street Journal show that Facebook has a three-year goal to create more products for preteens and has commissioned strategy papers about the long-term business opportunities presented by this demographic. However, federal privacy law forbids data collection on children under 13, and lawmakers have criticized tech companies for not doing more to protect kids online from predators and harmful content.

the facebook files

## Facebook's Effort to Attract Preteens Goes Beyond Instagram Kids, Documents Show

It has investigated how to engage young users in response to competition from Snapchat, TikTok; 'Exploring playdates as a growth lever'

THE WALL STREET JOURNAL

# THE FACEBOOK FILES

Facebook is set to testify in a Senate hearing on the effects of its products on young people's mental health. Six of the documents used in the recent Instagram article are published below, provided by a person seeking whistleblower status. Facebook has denied the article's findings and stated that Instagram can help teenagers during tough times.



# THE FACEBOOK FILES

Facebook's staff structure has seen significant changes in recent years, with Javier Olivan overseeing teams tasked with expanding the social media platform's user base and analyzing user activity, experiencing the largest growth in staff reporting to him. While the legal team under COO Sheryl Sandberg's portfolio has grown about 60% faster than the company overall due to Facebook's legal troubles, her share of staff has declined in recent years. Facebook's contractors have grown even faster than its staff, with Sandberg overseeing the largest group of contractors, and many workers are responsible for reviewing flagged content.



THE WALL STREET JOURNAL.



the facebook files

## Is Sheryl Sandberg's Power Shrinking? Ten Years of Facebook Data Offers Clues

Worker lists reveal which teams are growing fastest, and shifting power centers and priorities

By [Stephanie Stamm](#) , [John West](#) and  
[Deepa Seetharaman](#)

Oct. 1, 2021 8:05 am ET

SAVE SHARE TEXT

95 RESPONSES

# THE FACEBOOK FILES

Frances Haugen, the former Facebook employee who collected documents that became the basis for The Wall Street Journal's Face book Files series, has testified before Congress to bring about change at the social media giant. Haugen, a former product manager, claims that the company is reluctant to acknowledge the harm it can cause and unwilling to address its flaws. She has also sought whistleblower protection from the Securities and Exchange Commission. Haugen was concerned that Facebook's growth and user engagement were more important than users' welfare. She became skeptical that her team could make an impact in fixing the platform's weaknesses, and she resigned from Facebook in April 2021.



THE WALL STREET JOURNAL.

BUSINESS

## The Facebook Whistleblower, Frances Haugen, Says She Wants to Fix the Company, Not Harm It

The former Facebook employee says her goal is to help prompt change at the social-media giant

# THE FACEBOOK FILES

Internal documents reviewed by The Wall Street Journal show that Facebook's AI is not yet able to consistently identify hate speech, excessive violence, and underage users on its platform, contrary to what Facebook executives have said in the past. Facebook's algorithms can't even differentiate between certain sensitive content, including cockfighting and car crashes. The company has admitted that it is nowhere near being able to reliably screen offensive or dangerous content, and it is unlikely to improve beyond 10-20% in the short-medium term. Facebook employees have estimated that the company removes only a low-single-digit percent of posts that violate its rules.

THE WALL STREET JOURNAL

the facebook files

## Facebook Says AI Will Clean Up the Platform. Its Own Engineers Have Doubts.

AI has only minimal success in removing hate speech, violent images and other problem content, according to internal company reports

# THE FACEBOOK FILES

Internal documents reveal that Facebook is struggling to detect and handle users creating multiple accounts on its platform, and its system for detecting such accounts tends to undercount them. The issue is prevalent among new accounts, and the reliability of information that helps inform big advertisers' spending decisions is at risk. Facebook estimates that 11% of its monthly active users worldwide have duplicate accounts, and a quarter to a third of them are persistent SUMA, where a user continues to operate multiple accounts. The company's policy of requiring users to have only one master account under a real name helps prevent impersonation and scams.

THE WALL STREET JOURNAL.

the facebook files

## How Many Users Does Facebook Have? The Company Struggles to Figure It Out

Internal research finds that new users with multiple accounts are undercounted, 'very prevalent'; some are unintentional

# THE FACEBOOK FILES

Facebook is taking action against "harmful communities" before they gain traction on its platform, adopting a surgical strike strategy to combat dangerous social movements. Internal documents reveal that Facebook has long discussed more systematic approaches to restrict features that amplify incendiary and divisive posts, but the company has rejected these in favor of a reactive, ad hoc approach. The issue has raised questions around Facebook's commitment to neutrality and its ability to make decisions on whom to silence without public disclosure or the right of appeal.

Critics accuse Facebook of censorship, while others urge the company to more forcefully block harmful content.



THE WALL STREET JOURNAL.

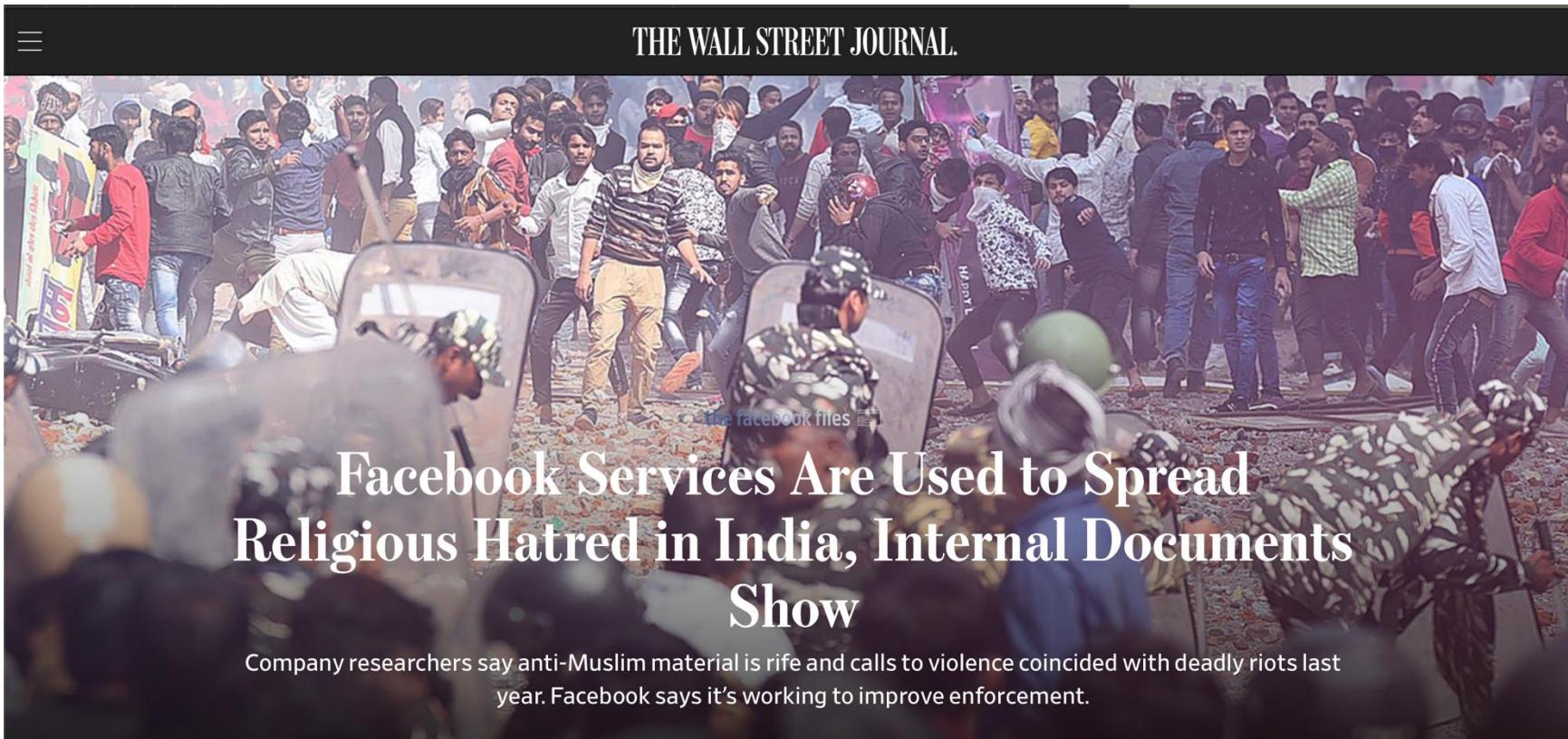
the facebook files

## Facebook Increasingly Suppresses Political Movements It Deems Dangerous

Reluctant to stifle viral content it helps amplify, the social-media giant is playing whack-a-mole with groups it believes are potentially harmful

# THE FACEBOOK FILES

Facebook experienced a 300% surge in inflammatory content in India after religious protests in 2019, with rumors and calls to violence spreading on WhatsApp during communal violence in February 2020. Hindu and Muslim users reported encountering a significant amount of content promoting conflict, hatred, and violence, including blaming Muslims for the spread of Covid-19 and false claims of Muslim men targeting Hindu women. While Facebook banned some groups and individuals, others remained active due to "political sensitivities." India's government has threatened to jail Facebook, WhatsApp, and Twitter employees who do not comply with data or take-down requests.



# THE FACEBOOK FILES

Facebook is accused of favoring right-wing publishers by its employees in internal messages obtained by the Wall Street Journal. Documents show employees and their superiors debating how to restrain right-wing publishers, while senior employees act as a check on agitation from the rank and file. Other documents suggest that Facebook's management has placed political considerations at the center of its decision-making in order to avoid charges of bias. Right-wing sites are among the most popular publishers on the platform, according to research firm NewsWhip, a fact that is criticized by people on the left, who claim Facebook's algorithms reward far-right content. Breitbart has also come under fire for its relationship with Facebook.

The screenshot shows a news article from The Wall Street Journal. At the top, there is a dark header with the WSJ logo and a menu icon. Below the header, a large image of a computer screen displays a messaging interface. A message from an employee reads, "at all is disheartening to me." Another message from a senior employee says, "Get Breitbart Out of News Tab. Do I need to explain this one?" The article title is "Facebook's Internal Chat Boards Show Politics Often at Center of Decision Making". A subtitle below the title reads, "In hot debates, employees and management spar over allegations content rules aren't enforced for Breitbart and other right-wing publishers for fear of public blowback. Other internal documents show management expresses wariness of appearing biased." The bottom of the page features a navigation bar with links like "HOME", "OPINION", "BUSINESS", etc., and a search bar.

THE WALL STREET JOURNAL.

at all is disheartening to me.

Get Breitbart Out of News Tab.  
Do I need to explain this one?

the facebook files

## Facebook's Internal Chat Boards Show Politics Often at Center of Decision Making

In hot debates, employees and management spar over allegations content rules aren't enforced for Breitbart and other right-wing publishers for fear of public blowback. Other internal documents show management expresses wariness of appearing biased.

# THE FACEBOOK FILES

Facebook's own internal research showed that about 12.5% of users feel that Facebook causes a negative impact on their sleep, work, relationships, or parenting. Facebook's team on user well-being suggested fixes, but the team was shut down in 2019. Facebook is formulating a new effort to address problematic use alongside other well-being concerns such as body image and mental health. The researchers say that Facebook is not clinically addictive, but repetitive and excessive use can cause problems for some people, including loss of productivity and sleep, and a degradation of in-person relationships. The issues affect over 360 million people or about 12.5% of Facebook's users.



THE WALL STREET JOURNAL.

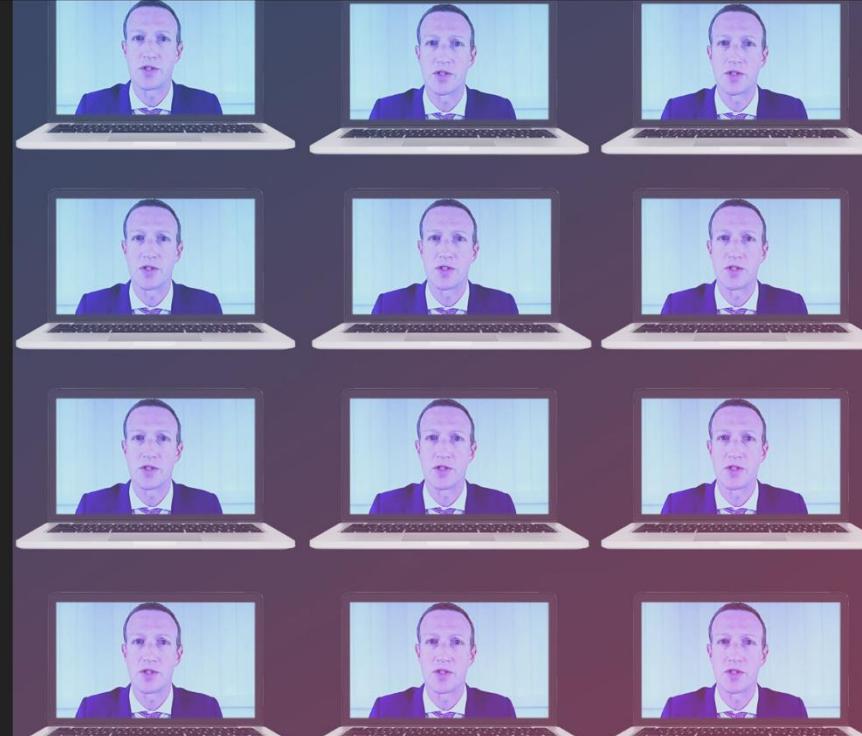
the facebook files

## Is Facebook Bad for You? It Is for About 360 Million Users, Company Surveys Suggest

The app hurts sleep, work, relationships or parenting for about 12.5% of users, who reported they felt Facebook was more of a problem than other social media

# THE FACEBOOK FILES

According to internal documents, Facebook has been slow to crack down on copyright infringement for fear of legal liability. Posting unoriginal content has been an effective way to build a large audience on the platform, with some bad actors intentionally distributing unoriginal content for "manufactured virality." This prevalence of unoriginal content makes it harder for legitimate content partners, such as news outlets, to get visibility on the platform. While Facebook has begun to report the number of copyright violations it identifies and removes proactively, its penalties for posting unoriginal content are not strong enough to meaningfully discourage the practice.



THE WALL STREET JOURNAL.

the facebook files

## Facebook Allows Stolen Content to Flourish, Its Researchers Warned

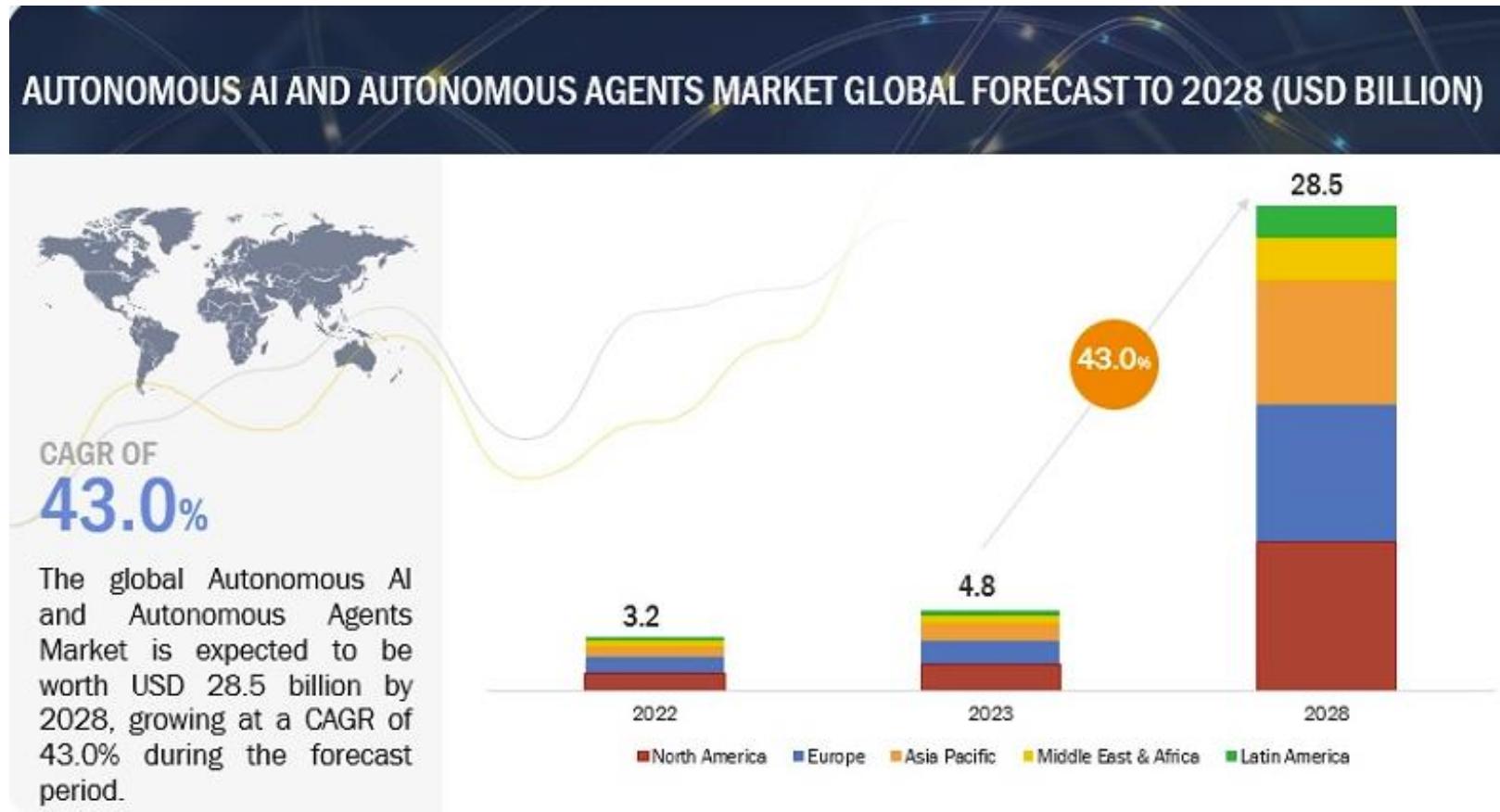
About 40% of traffic to pages in 2018 went to those with content that was plagiarized or recycled, and Facebook has been slow to crack down on copyright infringement

# THE FACEBOOK FILES

Facebook's internal documents, revealed by former employee Frances Haugen, have led to accusations of the company manipulating political discourse and ignoring the negative impacts of social media on mental health, among other issues. Facebook responded by citing its investments in online safety and partnerships with outside entities, but has lost executives, faced congressional hearings and state investigations, and been criticized by its oversight board. CEO Mark Zuckerberg has told employees not to apologize and is reportedly opposed to major changes to Meta's product strategy, such as ending development of Instagram for children.

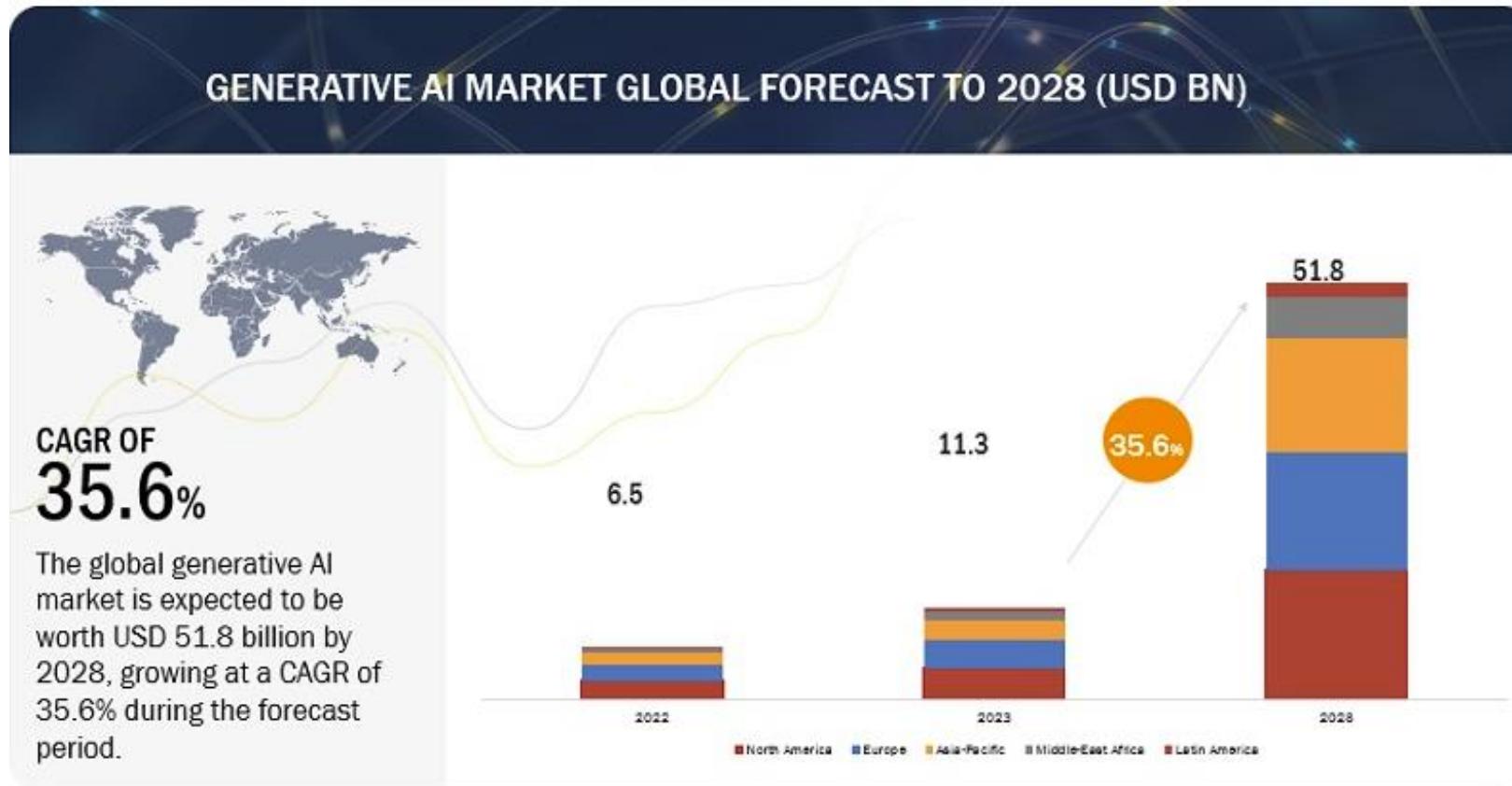


# AUTONOMOUS AI AGENTS MARKET



Autonomous agents are being developed and experimented with for a variety of use cases, such as automating customer service tasks, managing inventory, optimizing manufacturing processes, and providing financial advice.

# GENERATIVE AI MARKET



Factors driving the growth of Gen AI market include evolution of AI and deep learning, rise in the era of content creation and creative applications and innovation of cloud storage enabling easy access to data.

# Artificial Intelligence (AI) In Marketing

## Market Growth & Trends

- The global artificial intelligence (AI) in marketing market size is expected to reach USD 82.23 billion by 2030, according to a new report by Grand View Research, Inc. The market is anticipated to expand at a CAGR of 26.6% from 2023 to 2030. The rising demand for digital assistance and the growing demand for customer-driven marketing and advertisement drive the market's growth. Advancements in big data analytics and increased use of AI-based products and services to improve consumer experience are also responsible for market growth. The increased adoption of cloud-based services and the growth of marketing analytics are expected to create lucrative opportunities for AI in the marketing market.
- AI in marketing can be used to understand customer behavior, social media marketing, advertisements, data filtering, and analysis. AI enables marketing teams to go beyond traditional demographic data and discover consumer preferences on a personal level, enabling brands to develop experiences based on a customer's particular preferences. Moreover, data plays an essential role in enhancing the recommendation patterns of content served to users via machine learning algorithms.

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