META Valuation

FY2012 – PRESENT

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Valuation Summary

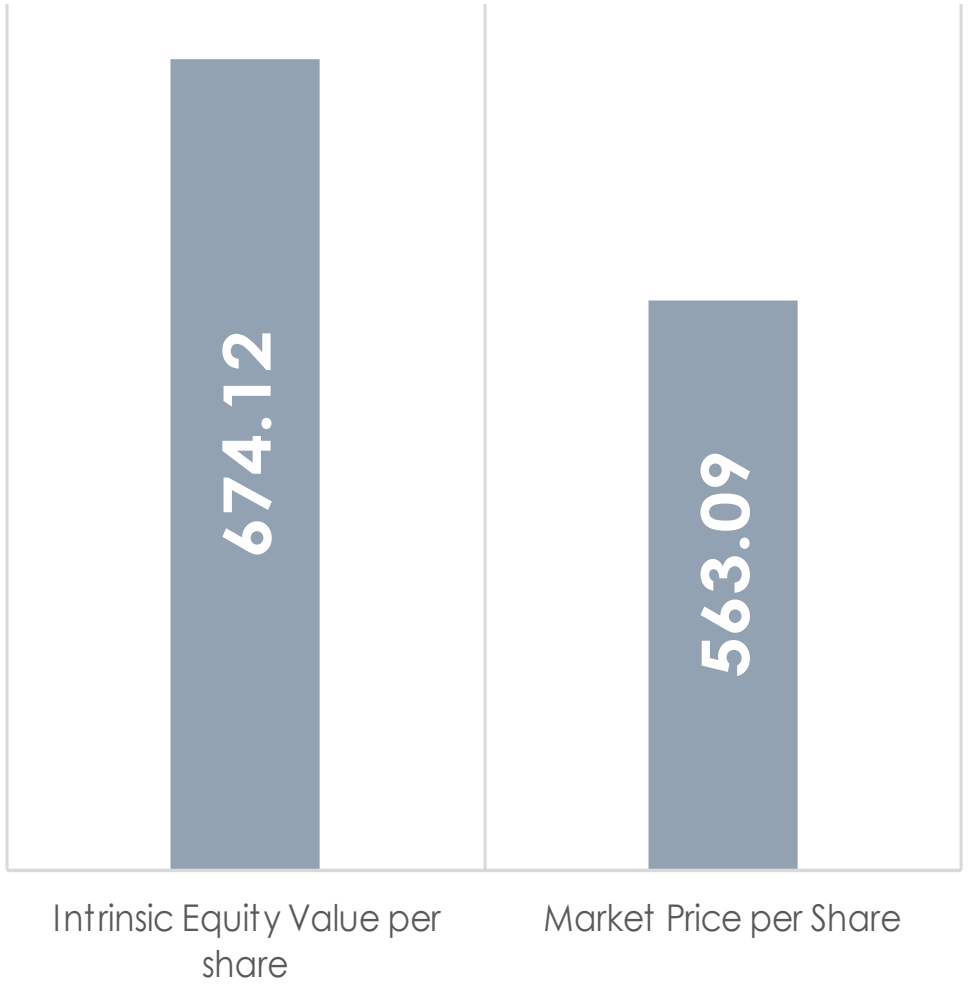
META has proven to be a resilient company who adapts and evolves as the market and consumer needs change.

- Meta is not afraid to make big bets on companies it believes in, such as Instagram, Oculus, and WhatsApp.
- It's investing heavily in future technologies, particularly AI, and shifting its focus to video and private messaging for monetization.
- The company faces scrutiny from regulators and limitations on user data access.
- See the Metaverse as the next computing platform and have made it its mission to help develop it.
- Has been negatively impacted by public perception and scandals related to data, privacy and safety practices which it must control to continue growing its ads business.
- The macroeconomic environment has also affected the industry, forcing Meta to focus on efficiency and incorporate Generative AI.

Intrinsic Value vs Real Value over the Years

	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Price	38.00	26.62	54.65	78.02	104.6	114.1	114.2	128.2	115.0	142.0	150.9	170.8	176.4	159.7	194.3	164.4	131.0	166.6	193.0	178.0	205.2	166.8	227.0	261.9	273.1	294.5	347.7	339.3	336.3	222.3	161.2	135.6	120.3	211.9	286.9	300.2	353.9	485.5	504.2	572.4
Intrinsic Value	22.88	38.17	79.32	88.58	109.6	149.4	130.2	152.7	148.1	120.6	137.4	154.4	177.7	193.8	204.7	169.6	175.0	195.2	186.2	205.3	240.2	267.0	273.4	314.5	291.8	289.3	333.3	346.9	268.6	197.7	112.4	95.53	130.4	240.3	399.2	414.5	629.9	620.0	699.6	674.1
Value/ Price	166.1%	69.7%	68.9%	88.1%	95.4%	76.3%	87.8%	84.0%	77.7%	117.7%	109.8%	110.6%	99.3%	82.4%	94.9%	97.0%	74.9%	85.4%	103.6%	86.7%	85.4%	62.5%	83.0%	83.3%	93.6%	101.8%	104.3%	97.8%	125.2%	112.5%	143.4%	142.0%	92.2%	88.2%	71.9%	72.4%	56.2%	78.3%	72.1%	84.9%

Value of the Company Today

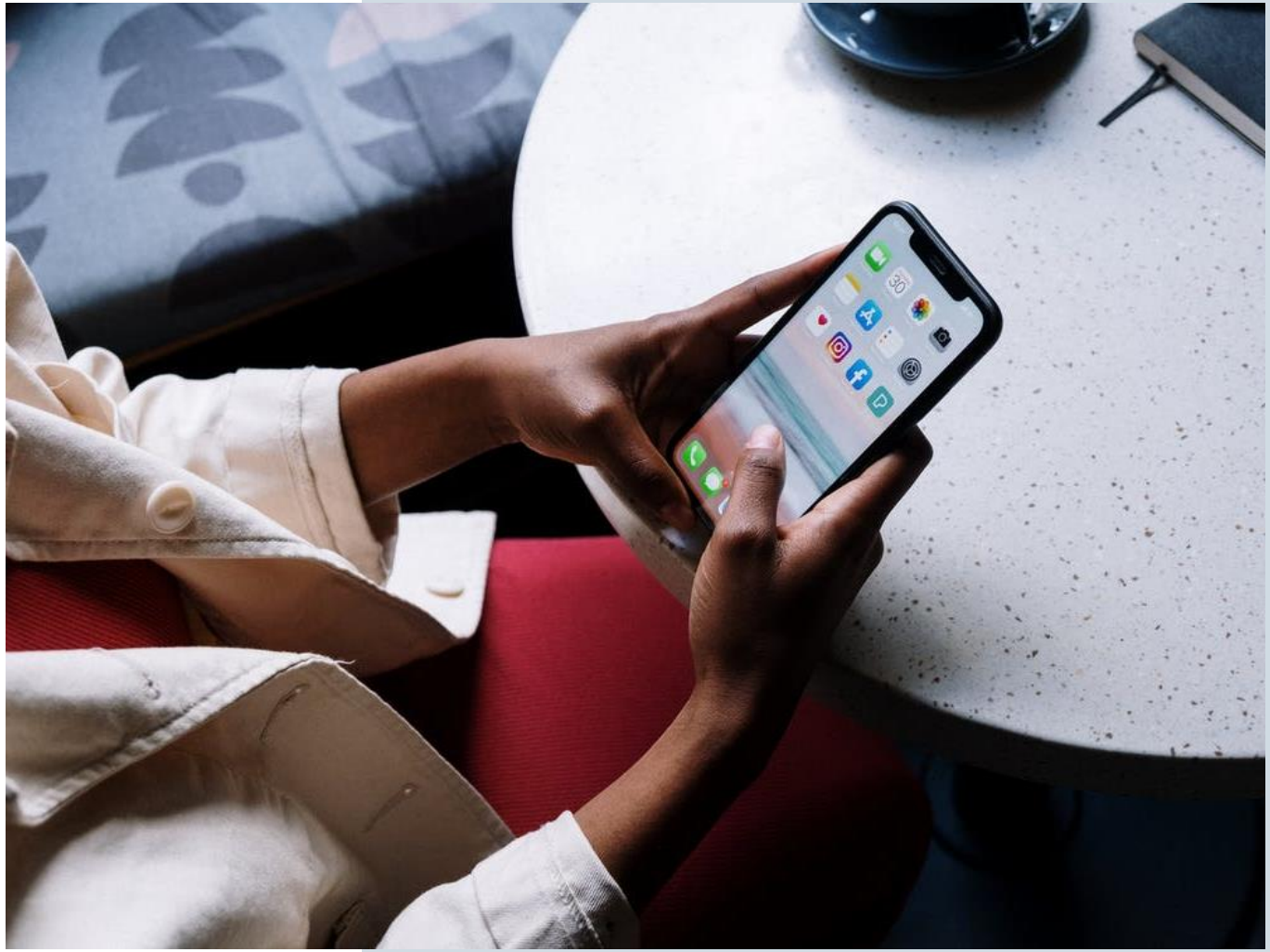


83.5%

PRICE AS % OF VALUE

Market Close Date: November 20, 2024

SUMMARY REPORT



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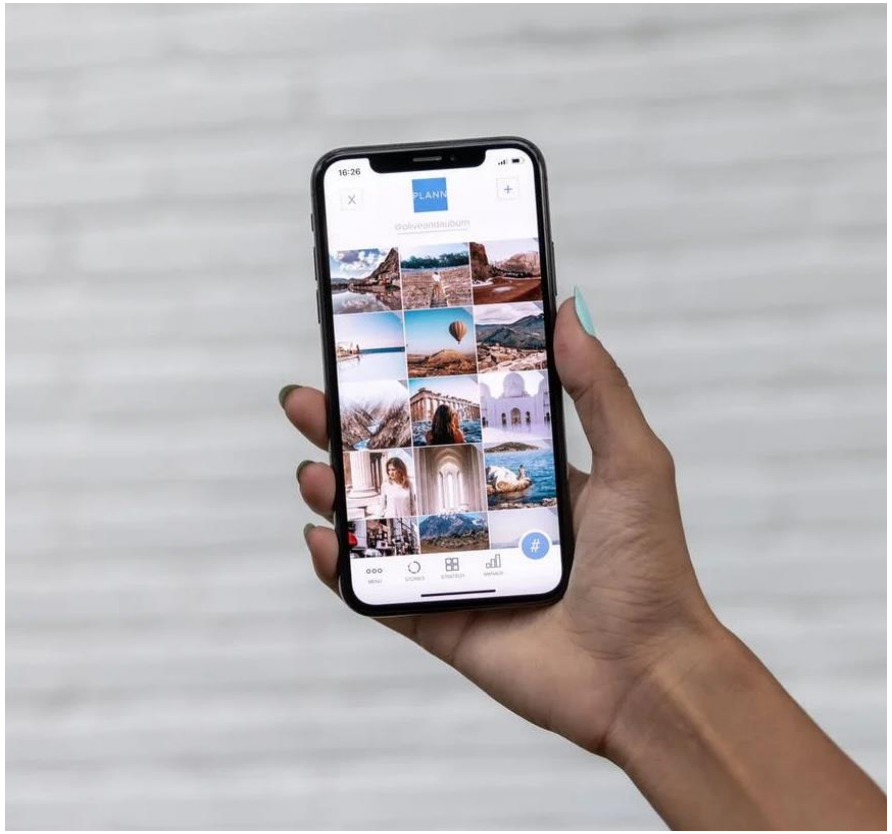


Business Overview

Business Overview

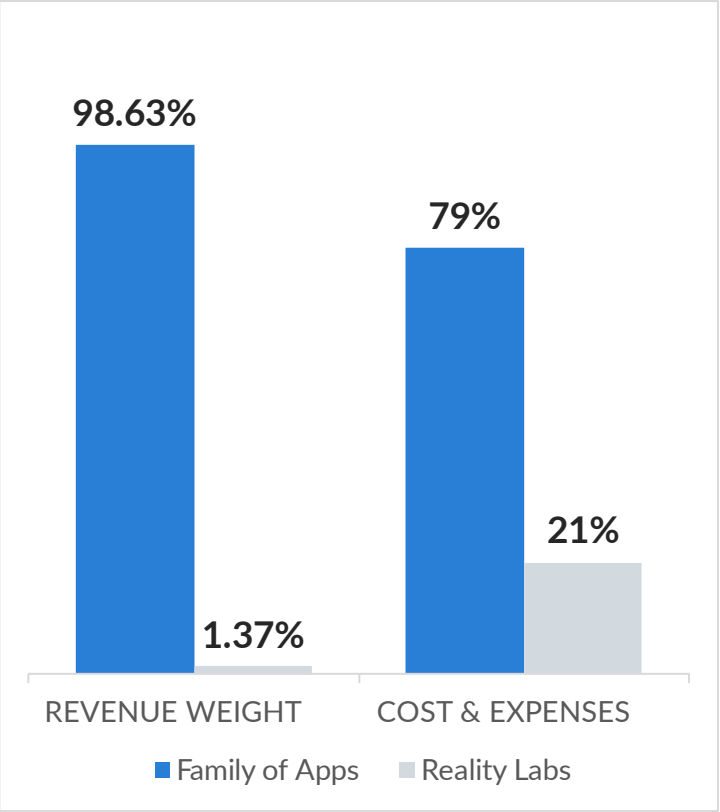
Reporting Segments

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 3rd party apps/ websites.

Reality Labs (RL)

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



As of Q3 2024

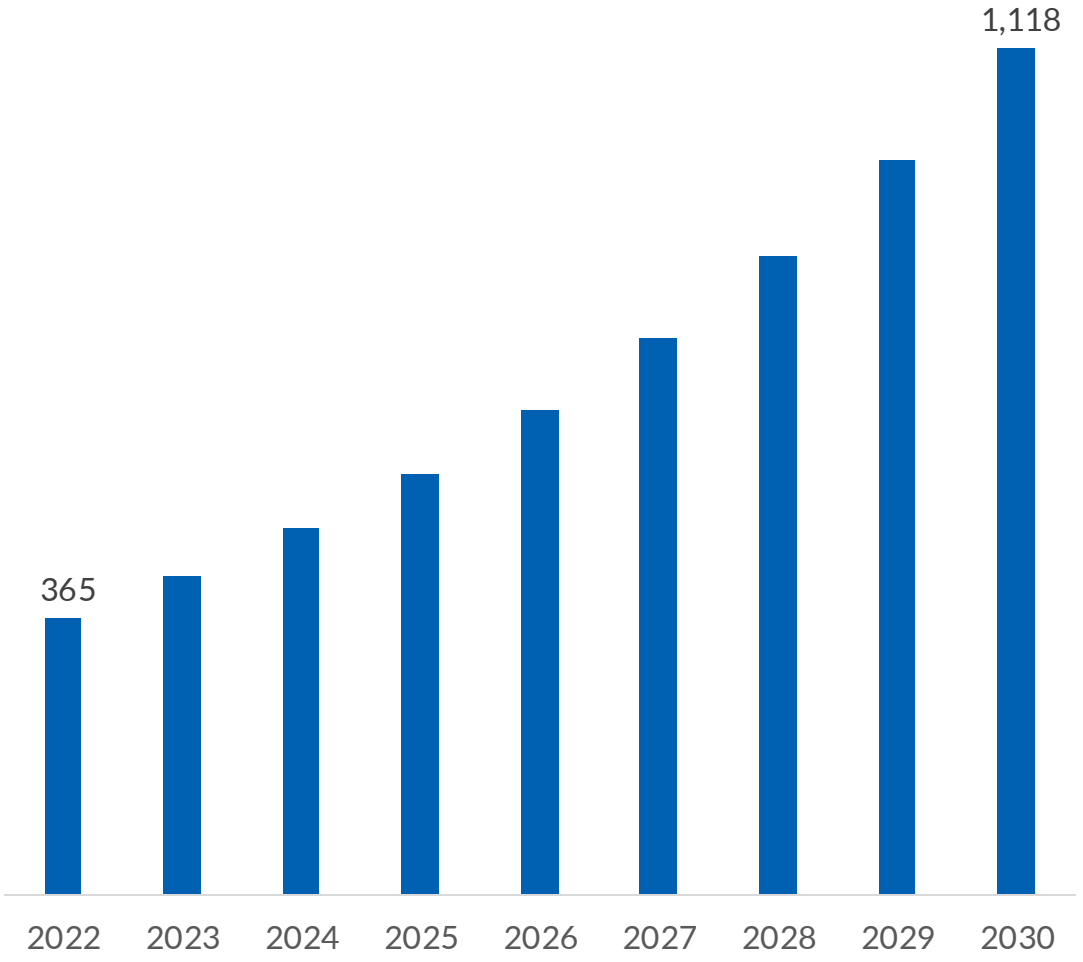
Industry Overview

DIGITAL ADVERTISING

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.

CAGR
15%



Digital Advertising Industry Expected Growth
(USD billions)

Sources: Statista | Grand View Research | KBV Research

Industry Overview

LLMs | Foundation Models

DEFINITION:

Large language models (LLMs) are advanced artificial intelligence systems designed to understand, generate, and manipulate human language. They leverage deep learning techniques, particularly transformer architectures, to process vast amounts of textual data, enabling them to perform a variety of natural language processing (NLP) tasks. These models have been trained over time to also process different types of data (multimodal models), opening even more capabilities as they advance.

LLaMA by Meta

Gemini

OpenAI

ANTHROP\C

MISTRAL AI_

xAI

USE CASES

Natural Language Processing
- Text Generation | Translation | Sentiment Analysis | Chatbots & Virtual Assistants

Content Creation
- Writing articles/ reports | Creative Art Generation

Image and Video Analysis
- Object detection | Medical Imaging

Scientific Research
- Data Analysis | Drug Development

Automation of Repetitive Tasks
- Document Summarization | Data Entry Automation

Multimodal Applications
- Combine Image and text identification and creation tools.

Education
- Personalized Learning Experiences | Tutoring

Robotics
- Enhance interactions in real life environments

Sources: SAP | Encord | Amazon | Tech Target | Couch Base

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

KEY BENEFITS OF USING AI

- More precise audience segmentation
- Easier ad creation and dynamization
- Better ad placement
- Increased security and privacy

Sources: Lean Summit | Forbes

Industry Overview

THE METAVERSE + AR/VR

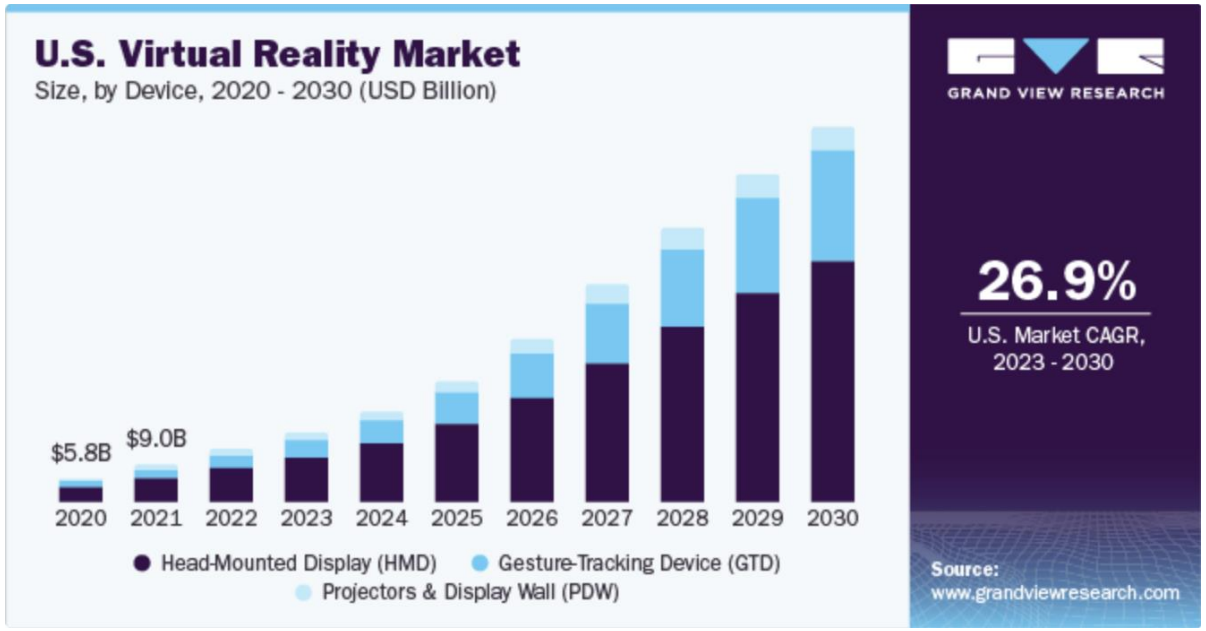
Image created using AI | Prompt: The Metaverse + AR/VR

The Metaverse is believed to be the next iteration of the internet.

The vision is based on virtual worlds where billions of people live, work, shop, learn and interact with each other.

Technologies that provide access to this virtual world, such as virtual reality (VR) headsets and augmented reality (AR) glasses, are evolving quickly.

Personal AI assistant use case has developed by combining AI, specially using Multimodal models, to aid people in their everyday task.



Sources: [Grand View Research]

Industry Overview

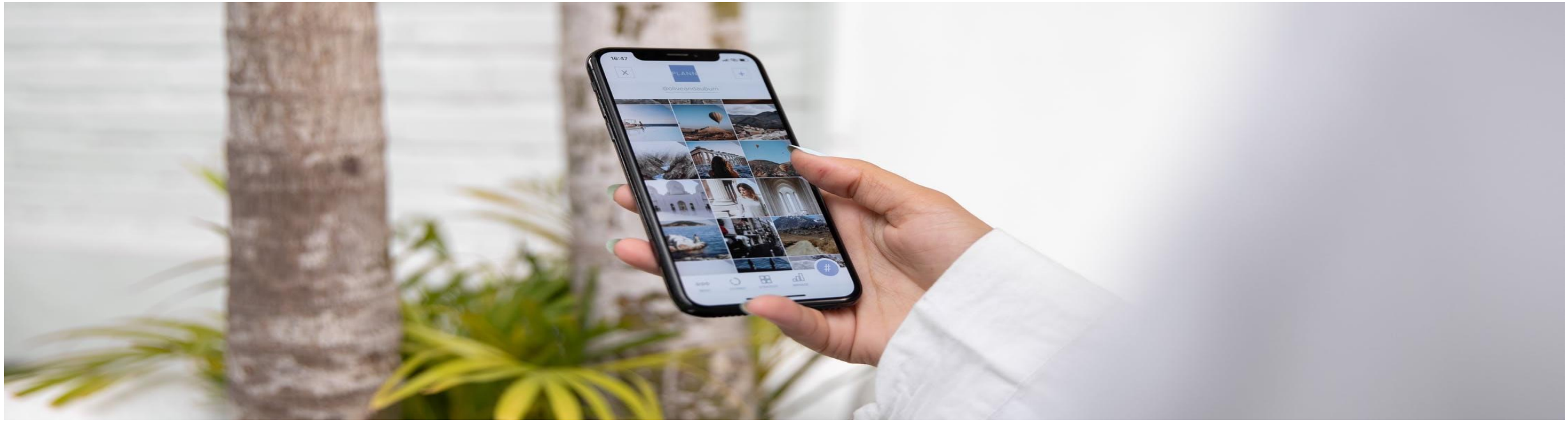
THE METAVERSE + AR/VR

Companies are racing to develop the next technology platform

VALUATION YEAR

FY2024

January – December 2024



FISCAL YEAR

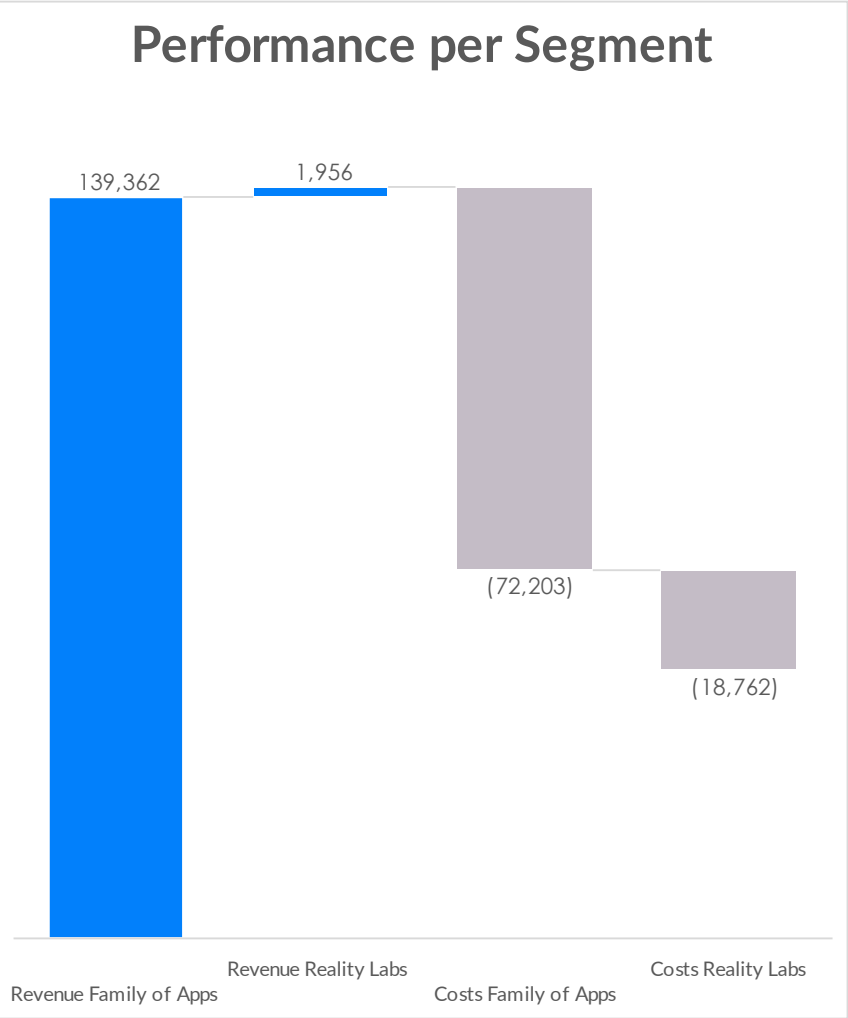
2024

Q3 Results

July – September 2024

Narrative | Segment Drivers

FY2024 | Q3



MARGINS		
	FoA	48.2%
	RL	-859.2%

Family of Apps (+19%)

Advertising (+19%)
Driven mainly by marketer spending in online, entertainment and media, and consumer packaged goods.

Other Revenue (+48%)

+ Mainly driven by WhatsApp Business Platform Revenue

Avg Price per Ad (+11%)

# of Ads (+7%)

- Ads delivered in geographies that monetize less.

- Products that monetize less (ex. Reels)

+ Improvements in ad targeting and measurement tools

+ Increase in all regions, especially APAC and Rest of the World

+ Increase in users + engagement

Reality Labs (+29%)

+ Increase in volume of hardware products sold

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 comsone 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.[513]
- 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.[514]
- Meta has confirmed using public posts since 2007 to train its AI models, affecting user content across Facebook and Instagram.[515]
- 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.[516]
- Apple is conducting an internal "Atlas" study to explore smart glasses development, potentially creating glasses that work like AirPods.[517]
- Google is collaborating with Qualcomm and Samsung on mixed reality smart glasses that connect to phones.[518]
- 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.[519]
- 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.[520]
  - 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.[521]
- 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.[522]
- The UK has introduced laws requiring platforms to prevent access to content promoting suicide or eating disorders.[523]
- 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.[524]
- FTC study revealed "vast surveillance" of users by social media platforms, with companies collecting more data than users realize.[525]
- PayPal is launching PayPal Ads, a new advertising business that will leverage transaction data from its payment platforms.[526]
- 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.[527]
  - 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.[528]
  - 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.[529]
  - 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.[530]

Assumptions

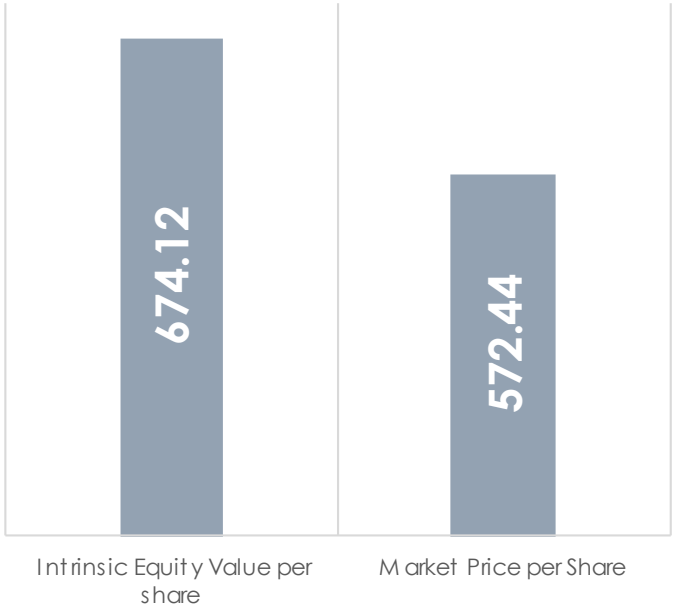
FY2024 | Q3

	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
Terminal Value	781,702	45.00%	27.00%	256,789	71,708	185,081

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



84.9%

PRICE AS % OF VALUE

FISCAL YEAR

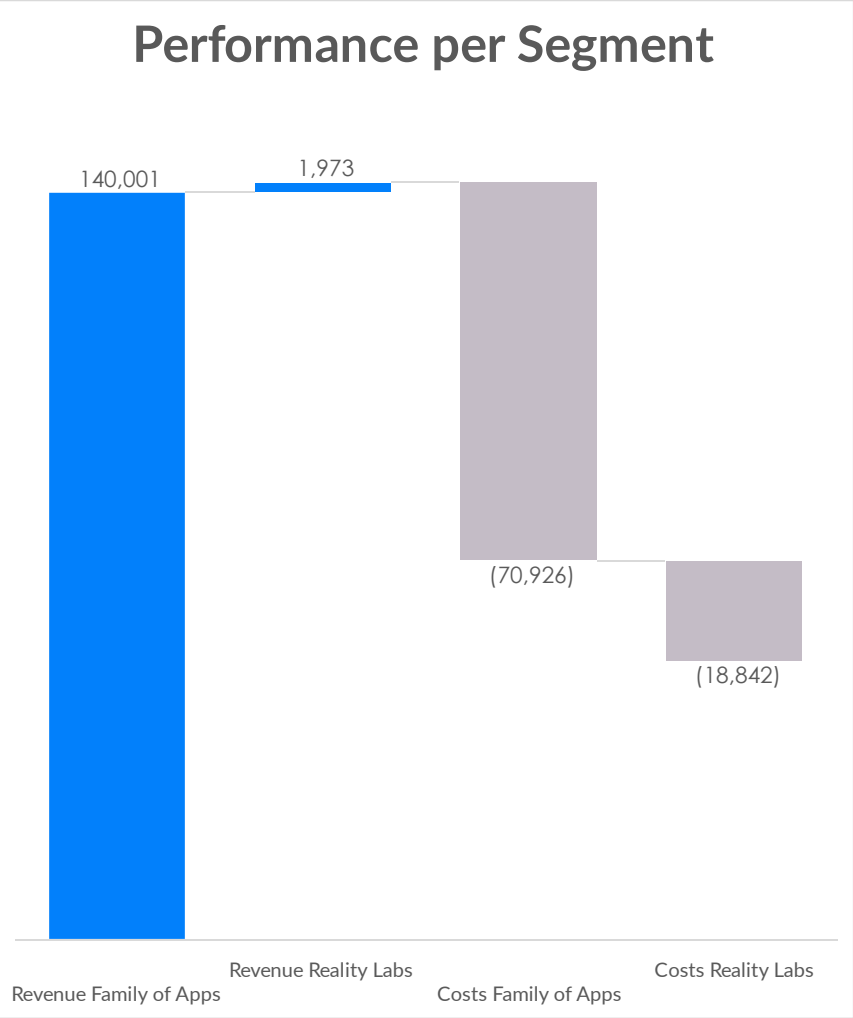
2024

Q2 Results

April – June 2024

Narrative | Segment Drivers

FY2024 | Q2



MARGINS	FoA	49.3%
	RL	-855.0%

Family of Apps (+22%)

Reality Labs (+28%)

Advertising (+22%)
Driven mainly by marketer spending in online commerce and gaming, as well as entertainment and media.

Other Revenue (+73%)

\+ Increase in volume of Meta Quest sales

Avg Price per Ad (+10%)

# of Ads (+10%)

\+ Mainly driven by WhatsApp Business Platform Revenue

\- Ads delivered in geographies that monetize less.

\- Products that monetize less (ex. Reels)

\+ Improvements in ad targeting and measurement tools

\+ Increase in all regions, especially APAC and Rest of the World

\+ Number & frequency of ads displayed

\+ Increase in users + engagement

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.[495]
- 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.[496]
- 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.[497]
- 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.[498]
- 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.[499]
- 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.[500]
- 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.[501]

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 startup 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]

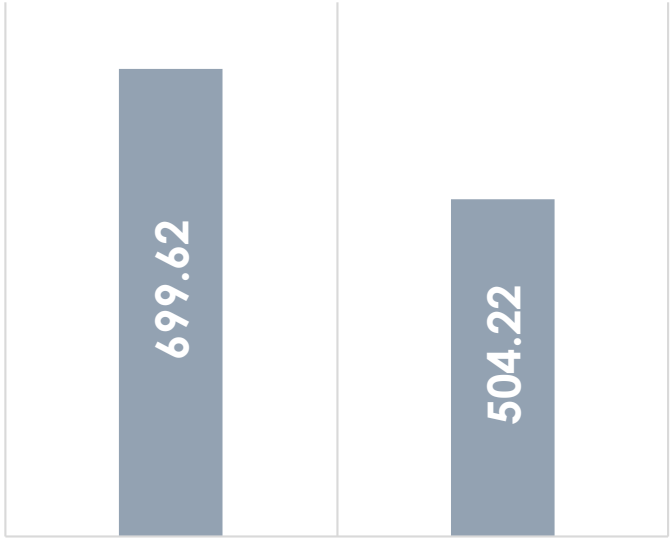
Assumptions

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.

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
Terminal Value	764,933	45.00%	27.00%	251,281	80,302	170,979

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



NUMBERS
FY2024 | Q2

72.1%
PRICE AS % OF VALUE

FISCAL YEAR

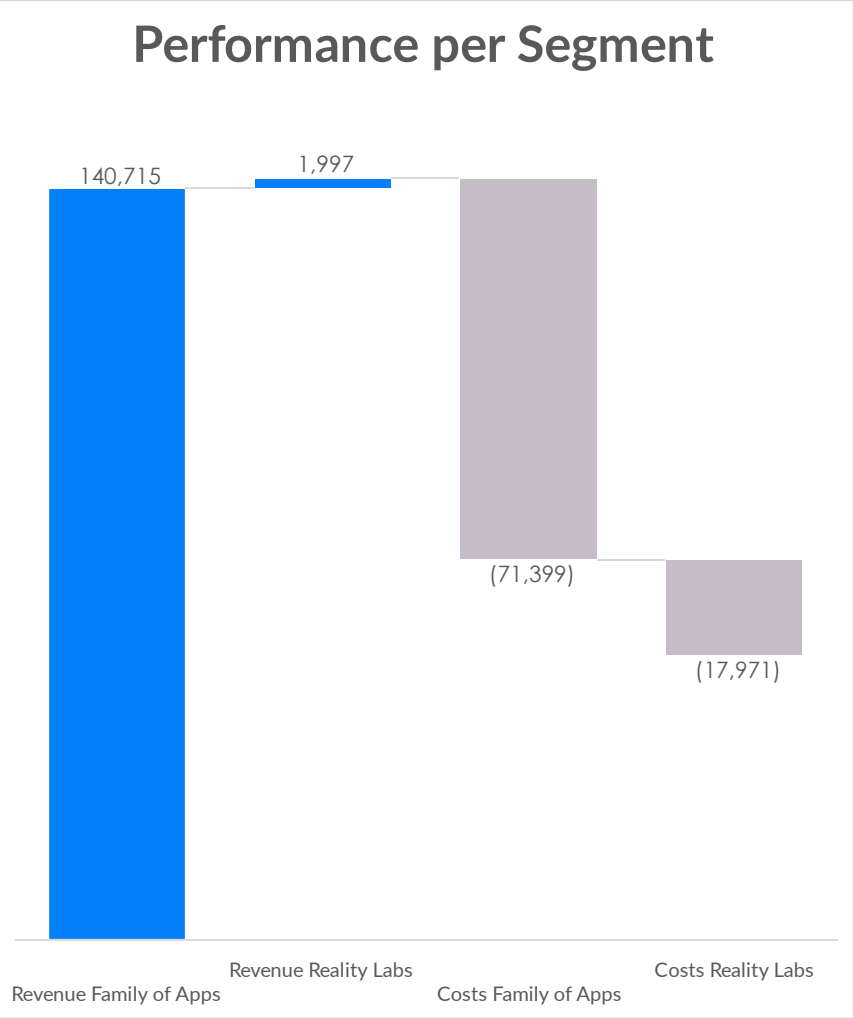
2024

Q1 Results

January – March 2024

Narrative | Segment Drivers

FY2024 | Q1



MARGINS		
	FoA	49.3%
	RL	-799.9%

Family of Apps (+27%)

Advertising (+27%)

Driven mainly by marketer spending in online commerce and gaming, as well as entertainment and media.

Avg Price per Ad (+6%)

# of Ads (+20%)

- Ads delivered in geographies that monetize less.
- Products that monetize less (ex. Reels)
+ Improvements in ad targeting and measurement tools
+ Increase in all regions, especially APAC and Rest of the World
+ Number & frequency of ads displayed
+ Increase in users

Other Revenue (+85%)

+ Mainly driven by WhatsApp Business Platform Revenue

Reality Labs (+30%)

+ Increase in volume of Meta Quest sales

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 be 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.[470]
- 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.[471]
- 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.[472]
- 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.[473]
- 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.[474]
- 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.[475]
- 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.[476]
- 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.[477]
- 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.[478]
- 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.[479]
- 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.[480]
- 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.[481]

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.[482]
- 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.[483]
- 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.[484]
- 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.[485]
- 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.[486]
- 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.[487]
- 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.[488]
- 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.[489]
- 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.[490]
- 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.[491]
- 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.[492]
- 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.[493]
- 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.[494]

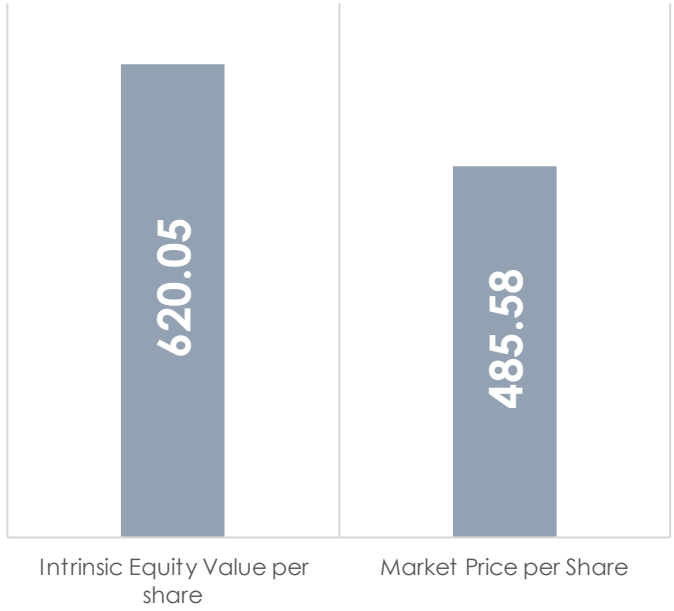
Assumptions

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.

	Revenues	Operating Margin	EBIT	EBIT (1-t)	Reinvestment	FCFF
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
Terminal Value	724,504	45.00%	27.00%	238,000	73,270	164,730

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



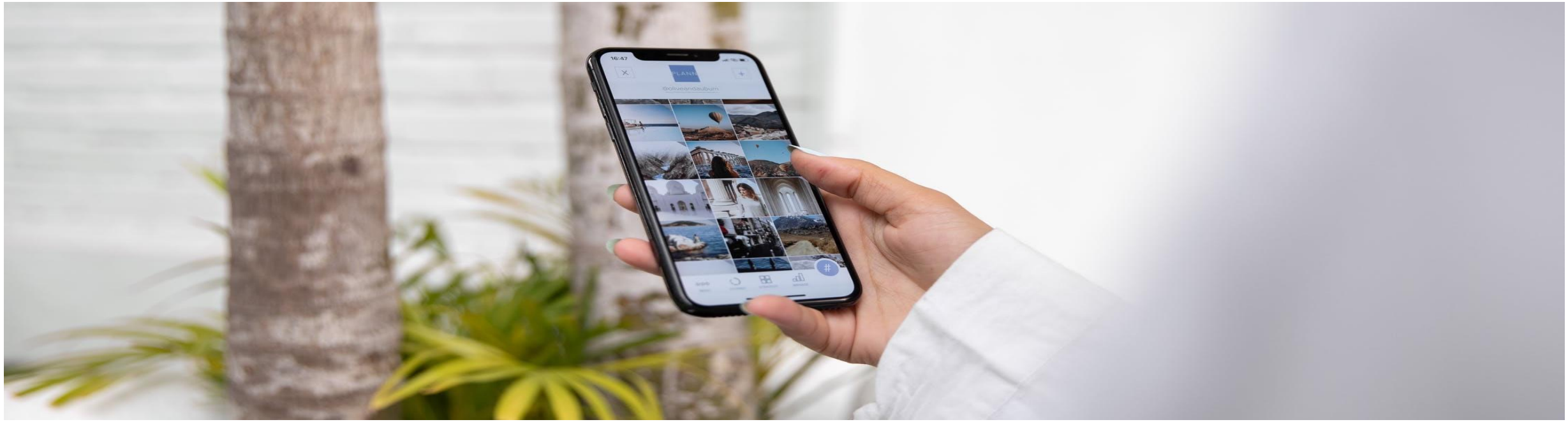
NUMBERS
FY2024 | Q1

78.3%
PRICE AS % OF VALUE

VALUATIONS AT A GLANCE

FY 2012 – 2023

January 2012 – December 2023



Important Milestones

2012
- Facebook IPO with starting price of $38.

2012
- Acquisition of Instagram for $1B

2012
- Facebook starts shift towards being a mobile first company

2014
- Acquisition of WhatsApp & Oculus

2015
- Strong investments in proprietary datacenters and AI

2015
- Video emerges as next big trend

2016
- Big growth opportunities in emerging markets where mobile use is increasing

2016
- Progress with AI in understanding text

2017
- Found Russian interference promoting divisive and political issues.

2017
- Increase in staff and partnerships to police platform.

2018
- Messaging as new opportunity as well as video, especially through Stories.

2018
- Backlash due to Cambridge Analytica Scandal - CEO testifies in Capitol Hill.

2019
- E-commerce as potential additional revenue stream.

2019
- Doubles marketing spending as it deals with reputational damage from scandal issues.

2019
- Announcement of Libra cryptocurrency

2019
- Launch of Oculus Quest - first all-in-one headset with no wires as well as touch controls.

2020
- COVID-19 Pandemic creates some turmoil but pushes for more digital experiences

2020
- Partnership with Jio Platforms in India to connect businesses and customers through WhatsApp

2020
- Boycott of Facebook by big advertisers

2020
- Launch of Reels in +50 countries as a response to rival TikTok

2021
- Company changes name to Meta to emphasize its focus on helping to build the Metaverse

2021
- WhatsApp Payments live in India and Brazil

2021
- Launch of new Apple iOS which limits measurements and targeting

2021
- Made ads on Reels available

2021
- Former Facebook employee releases internal documents proving FB knew about the harm its platforms has on its users

2022
- War on Ukraine negatively impacts results worldwide

2022
- Macroeconomic situation including inflation and interest rate hikes are affecting global economy, limiting advertiser budget

2022
- Focusing on AI to drive discovery engine

2022
- Proclaims 2023 as year of efficiency as Meta focuses on bringing costs down including massive layoffs

2023
- Launch of Threads, an app for text based updates and public conversations.

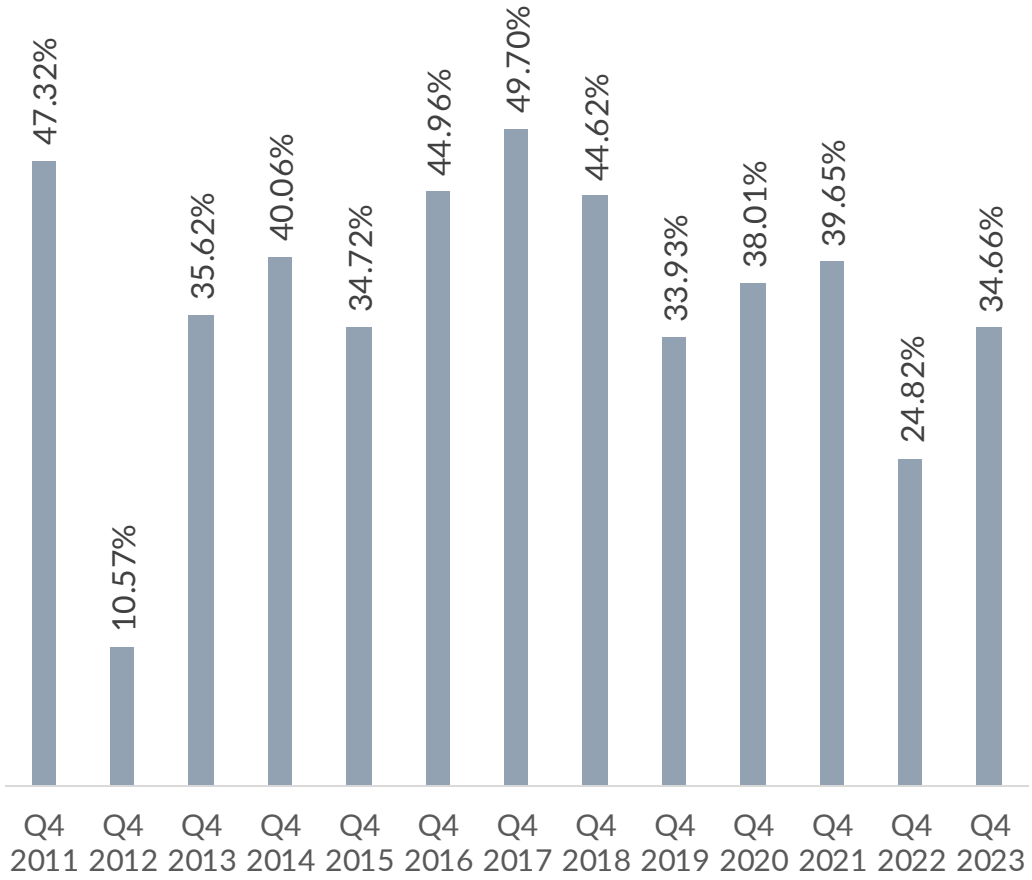
2023
- Release of Llama 2

2023
- Announced in Meta Connect: Quest 3, RayBan AR glasses, Meta AI, AI studio Platform, Emu Image Creation Model + Business & Creator AI.

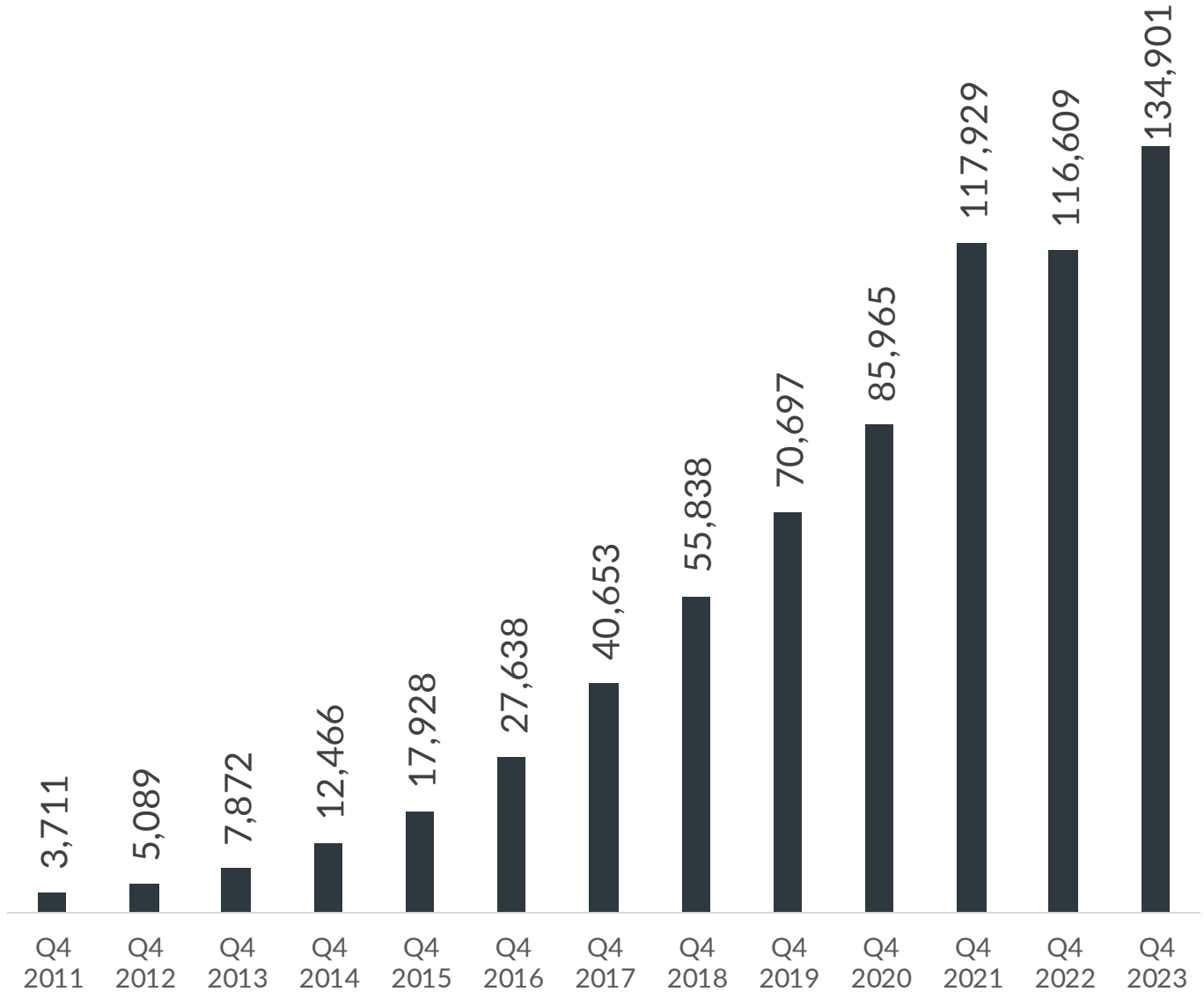
2023
- Roll out of multimodal AI for RayBan glasses.

2023
- Implementation of paid version for users in the EU due to regulation.

Yearly Results

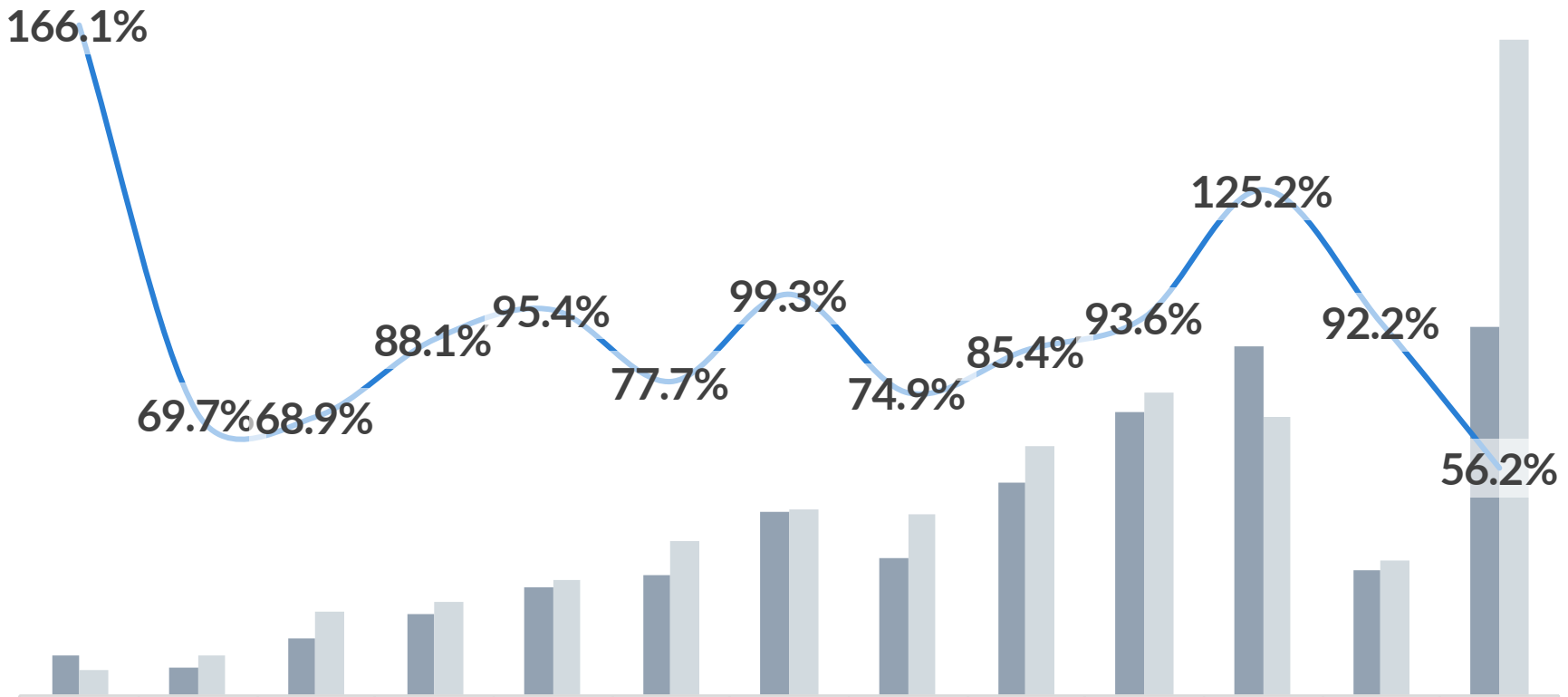


Operating Margin



Revenue

Year Close Intrinsic Value



	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015	Q4 2016	Q4 2017	Q4 2018	Q4 2019	Q4 2020	Q4 2021	Q4 2022	Q4 2023
Price	38.00	26.62	54.65	78.02	104.66	115.05	176.46	131.09	205.25	273.16	336.35	120.34	353.96
Intrinsic Value	22.88	38.17	79.32	88.58	109.66	148.16	177.71	175.06	240.27	291.86	268.60	130.47	629.90
Value/ Price	166.1%	69.7%	68.9%	88.1%	95.4%	77.7%	99.3%	74.9%	85.4%	93.6%	125.2%	92.2%	56.2%