

Price Target Change — October 25, 2023

Internet

Meta Platforms, Inc. (META)

META 3Q23 Review: Print and Guide Checks Boxes, See Compelling Entry Point Created by Cautious 4Q Commentary; PT to \$380

Our Call

Stock -3% AH despite strong print due to cautious early 4Q revenue comments related to ME conflict. See reaction as overblown as biz has recovered, print & guide checked boxes, buy-side ests moving higher and risk/reward compelling at 15x '24 P/E.

Stock -3% AH on cautious 4Q revenue commentary, wider guidance range (\$3.5B vs. \$2.5B prior); we believe fears are overblown. While mgmt called out 'softer' ad spend at beginning of 4Q after conflict in Middle East began, believe biz quickly recovered and 4Q revs guided +22% ex. F/X y/y at HE, +100bps accel vs. 3Q & 3% ahead of Street. See 3Q print and guide checking all boxes: Revs (reported 3Q/guided 4Q), '24 OpEx and '24 CapEx. Buy-side ests moving higher and see risk/reward compelling.

FY24 OpEx guided to \$94.0B at LE vs. buy-side bar of \$96.0B & our \$94.5B est heading into the print. Management noted that meaningful hiring backlog exists after 2023 restructuring/hiring freeze, expects elevated levels of hiring in 2024 before normalization in years subsequent (WFS ~8k 2024 employee net adds vs. pre-COVID annual hiring of 9-10k). Other drivers of expense growth infrastructure & FRL. Language largely unchanged vs. 2Q soft-guidance (FRL 'meaningful' increase in OI losses y/y).

FY24 CapEx guided \$30 - 35B vs. expectations approaching \$40B heading into the print; believe 'full range' is in play. Note key variable is demand for inference ultimately driven by 2024 AI product consumer adoption. See 1H24 GPU supply constraints likely an inhibitor to spend, incremental supply unlock could swing 2024 CAPEX higher. Unlike prior annual CapEx guides where company ultimately reported below range, CFO citing "dynamic" budgeting suggests wider range of outcomes possible.

See compelling entry point with implied multiple 15x our '24 EPS of \$19.01 (AH META Px \$279). While macro in 2024 uncertain see ample levers to achieve above-market growth: 3Q impressions +31% y/y, faster than revenue, A+ Shopping now \$10B run-rate w/more innovation to come, sustained momentum w/click-to-message ads. China cross-border lapping in 2H:24 most meaningful risk from here; we don't expect consumer demand for lower-priced goods to abate in '24, so expect category spend durability.

Estimates, Rating, and Price Target: Revise up 4Q23/FY23 total revs by 1% on FX tailwind and stronger FoA Other revs growth. Total OI increased 2%/4% for 4Q23/FY23 based on updated guidance, with FY24 OpEx largely unchanged vs. prior WFS estimate. GAAP EPS increased 3%/2% in '23/'24 to \$14.78 and \$19.01, respectively. Reiterate OW and raise PT to \$380 on 20x GAAP 2024 EPS, a modest premium to recent historical multiples to reflect the improved cost discipline and capital allocation.

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Rating	Overweight
Ticker	META
Price Target/Prior:	\$380.00/\$372.00
Upside/(Downside) to Target	26.9%
Price (10/25/2023)	\$299.53
52 Week Range	\$88.09 - 330.54
Shares Outstanding	2,573,161,373
Market Cap (MM)	\$770,739
Enterprise Value (MM)	\$759,719
Average Daily Volume	41,727,455
Average Daily Value (MM)	\$12,499
Dividend (NTM)	\$0.00
Dividend Yield	0.0%
Net Debt (MM) - last reported	\$(17,228)
ROIC - Current year est.	26%
3 Yr EPS CAGR from current year (unless otherwise noted)	21%

	2022A	2023E	2023E	2024E	2024E
\$ EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	2.72 A	2.20 A	NC	3.79 E	3.73 E
Q2 (Jun)	2.46 A	2.98 A	NC	4.35 E	4.42 E
Q3 (Sep)	1.64 A	4.39 A	3.98 E	4.83 E	4.59 E
Q4 (Dec)	1.76 A	5.21 E	NC	6.06 E	5.85 E
FY	8.59 A	14.78 E	14.38 E	19.01 E	18.58 E
P/E	34.9x	20.3x		15.8x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Wells Fargo Express Takeaways

Meta Platforms, Inc. (META) | Rating: Overweight | Price Target: \$380.00

Analyst: Ken Gawrelski

Financials

FY (Dec)	2022A	2023E	2024E
\$			
ESTIMATES			
EPS			
Q1	2.72 A	2.20 A	3.79 E
Q2	2.46 A	2.98 A	4.35 E
Q3	1.64 A	4.39 A	4.83 E
Q4	1.76 A	5.21 E	6.06 E
AN	8.59 A	14.78 E	19.01 E
Rev. (MM)	116,609.0 A	134,594.0 E	151,742.0 E
EBIT (MM)	28,945.0 A	46,401.0 E	57,610.0 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	8.59 A	13.64 E	17.07 E
Difference from Consensus		8.4%	11.4%

VALUATION

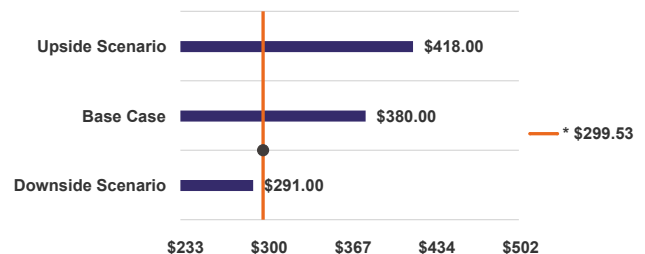
P/E	34.9x	20.3x	15.8x
EV/Revenue	6.5x	5.6x	5.0x
EV/EBIT	26.2x	16.4x	13.2x

Consensus Estimate: Consensus EPS Estimate; Source: VisibleAlpha
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, NE = No Estimate

Investment Thesis

We rate META Overweight. We see META as an accelerating growth story with emerging upside AI options in messaging, ad tools and new consumer applications. Combined with a newfound appetite for efficiency, we believe META should be a steady earnings compounder at a reasonable multiple.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 10/25/23

Source: Wells Fargo Securities, LLC estimates and Refinitiv.

Base Case | \$380.00

- Our PT of \$380 is based on 20x our 2024 GAAP EPS estimate
- PT reflects a modest premium to recent historical multiples to reflect growing revenue momentum as well as improved cost discipline and capital allocation at the company.

Upside Scenario | \$418.00

- Upside price target is \$418, which implies a 20x multiple on higher 2024 EPS estimate of \$20.91.
- Upside to our PT would be driven by better-than-expected Reels monetization improvement, and;
- Further acceleration of Asia/Rest of World ad revenue growth.

Downside Scenario | \$291.00

- Downside price target is \$291, which implies a 17x multiple to a lower 2024 EPS estimate of \$17.10.
- Downside to our PT would be driven by elongated timeline to achieve Reels revenue neutrality, faster-than-expected CapEx growth, and regulatory uncertainty.

Upcoming Catalysts

- 4Q23 Earnings Release

Company Description

Meta Platforms, Inc. engages in the development of products that enable people to connect and share with friends and family through mobile devices, PCs, VR headsets, and wearables worldwide. It operates in two segments, Family of Apps and Reality Labs. The Family of Apps segment offers Facebook, Instagram, Messenger, and WhatsApp. The Reality Labs segment provides augmented and VR-related products. The company was incorporated in 2004 and is headquartered in Menlo Park, California.

Exhibit 1 - Actual vs. Estimates

(USD Millions Unless Otherwise Noted)

Actual vs. Estimates	3Q23 Actual	% - Y/Y	WFS Est. 3Q23	% - Y/Y	Actual vs. WFS Est.	Street 3Q23	% - Y/Y	Actual vs. Street	Guidance
Total Revenue	34,146	23.2%	33,850	22.1%	1%	33,477	20.8%	2%	32bn to 34.5bn
Y/Y %	23.2%	2,768 bps	22.1%	2,661 bps	107 bps	20.8%	--	241 bps	
Operating Income	13,748	142.7%	12,128	114.1%	13%	11,559	104.1%	19%	
Op. Income Margin	40.3%	1,983 bps	35.8%	1,539 bps	444 bps	34.5%	1,409 bps	573 bps	
FCF (Company Defined)	13,639	7783.8%	5,857	3285.7%	133%	5,357	2996.4%	155%	
CapEx	(6,543)	-30.1%	(7,955)	-15.0%	-18%	(7,511)	-19.7%	-13%	
Total OpEx	(20,398)	-7.5%	(21,723)	-1.5%	-6%	(21,928)	-0.6%	-7%	
Employee Net Adds	(5,284)	--	(4,288)	--	23%	(1,425)	--	271%	
EPS	\$4.39	168.4%	\$3.98	143.5%	10%	\$3.65	123.4%	20%	
Segment Results									
Family of Apps Revenue	33,936	23.7%	33,551	22.3%	1%	32,994	20.3%	3%	
Family of Apps OI	17,490	87.3%	15,928	70.6%	10%	15,463	65.6%	13%	
FoA OI Margin	51.5%	1,750 bps	47.5%	1,344 bps	407 bps	46.9%	1,283 bps	467 bps	
Reality Labs OI		-100.0%	(3,800)	3.5%	-100%	(3,893)	6.0%	-100%	
Advertising Revenue									
Global	33,643	23.5%	33,345	22.4%	1%	32,921	20.9%	2%	
Cons. Currency Y/Y % (Est.)	21.2%	1,858 bps	20.5%	1,789 bps	68 bps	18.5%	1,593 bps	265 bps	

Guidance vs. Consensus	Guidance (LE for CapEx and OpEx)	% - Y/Y	Prior WFS	% - Y/Y	Guidance vs. WFS Est.	Street Consensus	% - Y/Y	Guide vs. Street
4Q Total Revenue	38,250	18.9%	39,380	22.4%	-2.9%	38,726	20.4%	-1.2%
FY23 Costs and Expense	(87,000)	-0.8%	(89,350)	1.9%	-2.6%	(89,487)	2.1%	-2.8%
FY23 CapEx	(27,000)	-13.4%	(29,575)	-5.2%	-8.7%	(29,035)	-6.9%	-7.0%
FY24 Costs and Expense	(94,000)	6.6%	(94,590)	7.3%	-0.6%	(95,985)	8.8%	-2.1%
FY24 CapEx	(30,000)	7.9%	(35,765)	28.6%	-16.1%	(34,955)	25.7%	-14.2%

Source: Wells Fargo Securities, LLC Estimates, VisibleAlpha, Company Reports

Exhibit 2 - Estimate Revisions

(USD Millions Unless Otherwise Noted)

Estimate Revisions	New WFS Est. 4Q23	Old WFS Est. 4Q23	% - Change	New WFS Est. FY23	Old WFS Est. FY23	% - Change	New WFS Est. FY24	Old WFS Est. FY24	% - Change
Total Revenue	39,804	39,380	1%	134,594	133,874	1%	151,742	152,251	-0.33%
Operating Income	16,034	15,778	2%	46,401	44,524	4%	57,610	57,661	0%
Op. Income Margin	40.3%	40.1%	22 bps	34.5%	33.3%	122 bps	38.0%	37.9%	9 bps
FCF (Company Defined)	9,832	10,720	-8%	41,337	34,443	20%	43,658	40,664	7%
CapEx	(8,359)	(8,664)	-4%	(27,812)	(29,575)	-6%	(32,251)	(35,765)	-10%
Total OpEx	(23,770)	(23,602)	1%	(88,193)	(89,350)	-1%	(94,133)	(94,590)	0%
Employee Net Adds	794	806	-1%	(19,503)	(18,495)	5%	8,391	4,098	105%
EPS	\$5.21	\$5.21	0%	\$14.78	\$14.38	3%	\$19.01	\$18.58	2%
Segment Results									
Family of Apps Revenue	38,713	38,289	1%	132,678	131,869	1%	149,681	150,090	0%
Family of Apps OI	20,034	19,778	1%	61,874	60,055	3%	76,110	76,161	0%
FoA OI Margin	51.7%	51.7%	10 bps	46.6%	45.5%	109 bps	50.8%	50.7%	10 bps
Reality Labs OI	(4,000)	(4,000)	0%	(15,473)	(15,531)	0%	(18,500)	(18,500)	0%
Advertising Revenue									
Global	38,451	38,087	1%	131,693	131,031	1%	148,484	149,162	0%
Cons. Currency Y/Y %	21.0%	21.0%	--	15.7%	15.5%	16 bps	14.4%	15.0%	(64 bps)

Source: Wells Fargo Securities, LLC Estimates

Financials

Exhibit 3 - Income Statement

(USD Millions Unless Otherwise Noted)

	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	2024E	2025E	2026E	2027E
Income Statement													
Revenue	70,697	85,965	117,929	116,609	28,645	31,999	34,146	39,804	134,594	151,742	171,636	191,583	213,597
% Y/Y - Revenue	26.6%	21.6%	37.2%	(1.1%)	2.6%	11.0%	23.2%	23.7%	15.4%	12.7%	13.1%	11.6%	11.5%
Cost of Revenue	(12,770)	(16,692)	(22,649)	(25,249)	(6,108)	(5,945)	(6,210)	(8,169)	(26,432)	(31,308)	(35,906)	(40,050)	(45,759)
Research and Development	(13,600)	(18,447)	(24,655)	(35,338)	(9,381)	(9,344)	(9,241)	(9,452)	(37,418)	(40,060)	(44,717)	(48,874)	(52,692)
Sales and Marketing	(9,876)	(11,591)	(14,043)	(15,261)	(3,044)	(3,154)	(2,877)	(3,668)	(12,743)	(12,783)	(13,767)	(14,668)	(15,360)
General and Administrative	(10,465)	(6,564)	(9,829)	(11,816)	(2,885)	(4,164)	(2,070)	(2,481)	(11,600)	(9,982)	(10,615)	(11,179)	(11,597)
Total Costs and Expenses	(46,711)	(53,294)	(71,176)	(87,664)	(21,418)	(22,607)	(20,398)	(23,770)	(88,193)	(94,133)	#####	#####	#####
% Y/Y - Total Costs and Expenses	51.0%	14.1%	33.6%	23.2%	10.5%	10.5%	(7.5%)	(7.7%)	0.6%	6.7%	11.5%	9.3%	9.3%
% of - Revenue	66.1%	62.0%	60.4%	75.2%	74.8%	70.6%	59.7%	59.7%	65.5%	62.0%	61.2%	59.9%	58.7%
EBIT	23,986	32,671	46,753	28,945	7,227	9,392	13,748	16,034	46,401	57,610	66,631	76,811	88,189
% Y/Y - EBIT	(3.7%)	36.2%	43.1%	(38.1%)	(15.2%)	12.4%	142.7%	150.6%	60.3%	24.2%	15.7%	15.3%	14.8%
% Margin - EBIT	33.9%	38.0%	39.6%	24.8%	25.2%	29.4%	40.3%	40.3%	34.5%	38.0%	38.8%	40.1%	41.3%
Interest and Other Income (Expense), net	826	509	530	(126)	80	(99)	272	215	468	1,095	1,440	2,270	3,505
Pre-Tax Income	24,812	33,180	47,283	28,819	7,307	9,293	14,020	16,249	46,869	58,705	68,071	79,081	91,694
Provision for Income Taxes	(6,327)	(4,034)	(7,913)	(5,620)	(1,598)	(1,505)	(2,437)	(2,827)	(8,367)	(10,273)	(11,912)	(13,839)	(16,046)
% Tax Rate	25.5%	12.2%	16.7%	19.5%	21.9%	16.2%	17.4%	17.4%	17.9%	17.5%	17.5%	17.5%	17.5%
Net Income	18,485	29,146	39,370	23,199	5,709	7,788	11,583	13,422	38,502	48,432	56,158	65,242	75,648
% Y/Y - Net Income	(16.4%)	57.7%	35.1%	(41.1%)	(23.5%)	16.5%	163.5%	188.5%	66.0%	25.8%	16.0%	16.2%	15.9%
Diluted Shares Outstanding	2,876	2,888	2,859	2,702	2,596	2,612	2,641	2,574	2,586	2,548	2,511	2,476	2,442
% Y/Y - Diluted Shares Outstanding	(1.5%)	0.4%	(1.0%)	(5.5%)	(5.3%)	(3.7%)	(1.7%)	(2.5%)	(4.3%)	(1.5%)	(1.4%)	(1.4%)	(1.4%)
Diluted EPS	\$6.43	\$10.09	\$13.77	\$8.59	\$2.20	\$2.98	\$4.39	\$5.21	\$14.78	\$19.01	\$22.36	\$26.35	\$30.97
% Y/Y - Diluted EPS	(15.1%)	57.0%	36.4%	(37.7%)	(19.2%)	21.0%	168.1%	195.9%	72.2%	28.6%	17.7%	17.8%	17.6%
EBITDA Excluding SBC	34,563	46,069	63,882	49,622	12,802	16,075	20,098	22,443	71,418	87,096	101,976	118,048	135,585
% Y/Y - EBITDA Excluding SBC	3.5%	33.3%	38.7%	(22.3%)	(2.9%)	17.4%	83.2%	90.5%	43.9%	22.0%	17.1%	15.8%	14.9%
% Margin - EBITDA Excluding SBC	48.9%	53.6%	54.2%	42.6%	44.7%	50.2%	58.9%	56.4%	53.1%	57.4%	59.4%	61.6%	63.5%

Source: Wells Fargo Securities, LLC Estimates, Company Reports

Investment Thesis, Valuation and Risks

Meta Platforms, Inc. (META)

Investment Thesis

We rate META Overweight. We see META as an accelerating growth story with emerging upside AI options in messaging, ad tools and new consumer applications. Combined with a newfound appetite for efficiency, we believe META should be a steady earnings compounder at a reasonable multiple.

Target Price Valuation for META: \$380.00 from \$372.00

- Our PT of \$380 is based on 20x our 2024 GAAP EPS estimate
- PT reflects a modest premium to recent historical multiples to reflect growing revenue momentum as well as improved cost discipline and capital allocation at the company.

Risks to Our Price Target and Rating for META

Downside risks include slowing user growth, competition, macroeconomic risk, ad platform risk, and limited shareholder rights, among other factors.

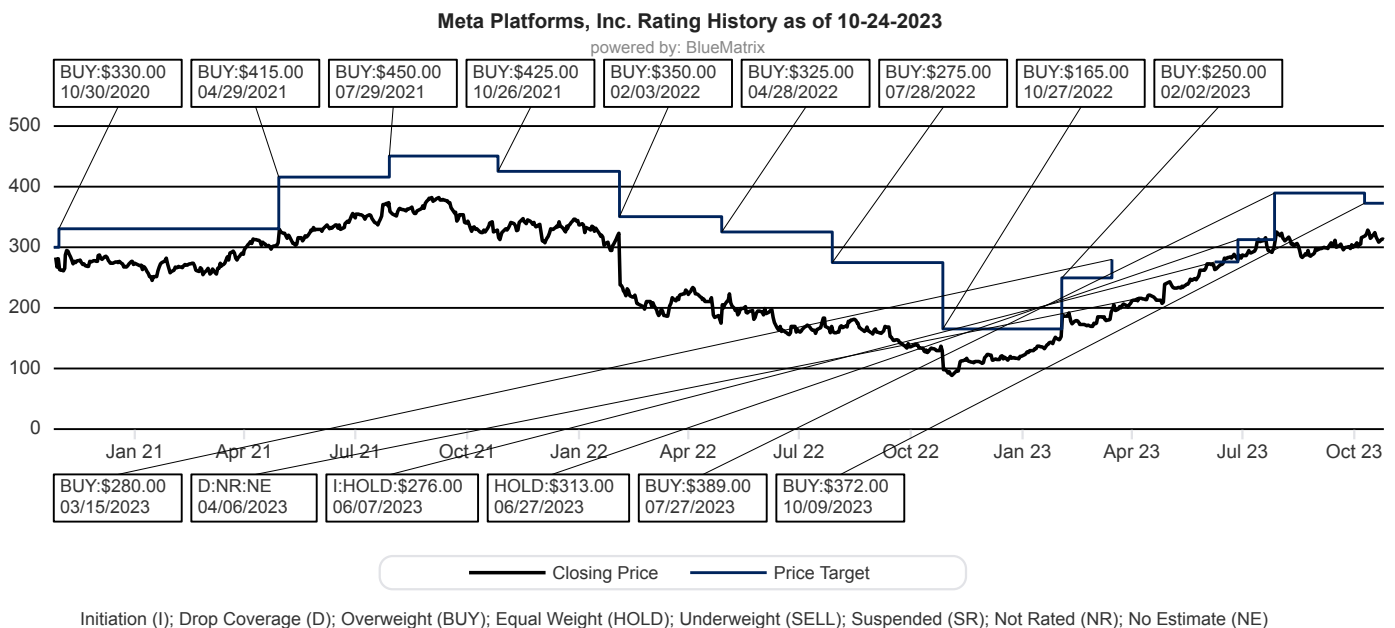
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As of October 25, 2023

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