



Rating
Buy

North America
 United States

TMT
 Internet

Company
Meta

Reuters
 META.OQ

Bloomberg
 META US

Exchange
 NAS

Ticker
 META

Date
 26 October 2023

Company Update

Price at 26 Oct 2023 (USD)	299.53
Price target	385.00
52-week range	327.82 - 88.91

Fundamentally Better, Despite Near Term Uncertainty

The big takeaway: 3Q revenue beat expectations, FY24 expense and capex guidance came in better than expected as well. However, the mid-point for 4Q guidance was below consensus and signals a potential y/y growth decel, despite a fairly comparable y/y compare, though similar to SNAP, the wider than typical guidance range incorporates a potential pull-back in brand advertising associated with the conflict in the Middle East. Notably, the high-end still implies y/y constant currency growth acceleration. **Overall, we think the fundamentals of the business remain best-in-class, highlighted by strong engagement trends, improving ad performance (pricing), Advantage+ contributions, and new surfaces becoming larger incremental revenue drivers in FY24 onwards (Reels and Click-to-Messenger ads). Perhaps just as importantly, the pipeline is rich with products that have the potential to be medium term contributors to engagement, performance, and revenue such as Threads, Business Messaging, and AI Agents. As such, we have growing conviction in the thesis of durable top-line growth at Meta despite near term volatility related to geopolitical uncertainty.**

Moreover, the margin profile appears improved on the back of the FY24 expense guidance (\$94-99bn), which came in well below buy-side fears as well as consensus at ~\$97bn. **We think this represents a key signal to investors that META is serious about weaving efficiency into its core DNA, which likely puts a lid on more pronounced growth in operating expenses going forward.** In fact, after the make-up hiring in FY24, headcount growth is expected to moderate in the years ahead. Just as importantly, the capex outlook signals more tepid y/y growth in FY24, which at the low-end would in fact imply lower capital intensity, while at the mid-point it would imply capex growing 400bps more than our FY24 revenue growth outlook.

All in, while we slightly moderate our 4Q23 and FY24 revenue estimates by 2%/2%, respectively, our earnings estimate actually increases slightly on the back of the lower expense outlook. **As such, with the stock down 3% after hours and our FY24 earnings trending up 1%, we note that META has just become 4% cheaper despite the fundamentals of the business actually appearing to improve.** We therefore reiterate our Buy rating and our target price of \$385, which implies +30% upside from today's levels.

Valuation & Risks

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Key changes

Revenue (USDm)	133,348.5 to 133,003.8	↓	-0.3%
GAAP EPS	13.80 to 14.45	↑	4.7%

Source: Deutsche Bank

Deutsche Bank Securities Inc.

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Figure 1: META 3Q Actuals vs Estimates

(In millions unless otherwise noted; per share figures in \$)	3Q23								
	Actual	DB Estimate	Actual vs. DBE	Street Estimate	Actual vs. Street	3Q22 Actual	YoY Chg.	1Q23 Actual	QoQ Chg.
MAUs	3,049	3,080	-1.0%	3,046	0.1%	2,957	3.1%	2,990	2.0%
ARPU	\$11.2	\$11.0	2.1%	\$11.0	2.1%	\$9.4	19.3%	\$9.6	16.7%
Total Revenue	\$34,146	\$33,593	1.6%	\$33,515	1.9%	\$27,714	23.2%	\$28,645	19.2%
– Family of Apps	\$33,936	\$33,294	1.9%	\$33,076	2.6%	\$27,429	23.7%	\$28,306	19.9%
– Advertising	\$33,643	\$33,094	1.7%	\$32,938	2.1%	\$27,237	23.5%	\$28,101	19.7%
– Other	\$293	\$200	46.7%	\$213	37.7%	\$192	52.6%	\$205	42.9%
– Reality Labs	\$210	\$299	-29.8%	\$313	-33.0%	\$285	-26.3%	\$339	-38.1%
Operating Income	\$13,748	\$11,589	18.6%	\$11,330	21.3%	\$5,664	142.7%	\$7,227	90.2%
– Family of Apps	\$17,490	\$15,594	12.2%	\$15,227	14.9%	\$9,336	87.3%	\$11,219	55.9%
– Reality Labs	(\$3,742)	(\$4,005)	n.m.f.	(\$3,939)	n.m.f.	(\$3,672)	n.m.f.	(\$3,992)	n.m.f.
OI Margin	40.3%	34.5%	+577 bps	33.8%	+645 bps	20.4%	+1983 bps	25.2%	+1,503 bps
– Family of Apps	51.5%	46.8%	+470 bps	46.0%	+550 bps	34.0%	+1750 bps	39.6%	+1,190 bps
– Reality Labs	-1781.9%	-1338.4%	n.m.f.	-1257.0%	n.m.f.	-1288.4%	n.m.f.	-1177.6%	n.m.f.
Net Income	\$11,583	\$9,810	18.1%	\$9,465	22.4%	\$4,395	163.5%	\$5,709	102.9%
Net Income Margin	33.9%	29.2%	+472 bps	28.2%	+568 bps	15.9%	+1806 bps	19.9%	+1399 bps
Adjusted EBITDA	\$20,098	\$17,931	12.1%	\$17,890	12.3%	\$10,973	83.2%	\$12,802	57.0%
Adjusted EBITDA Margin	58.9%	53.4%	+548 bps	53.4%	+548 bps	39.6%	+1927 bps	44.7%	+1,417 bps
Diluted EPS	\$4.39	\$3.73	17.7%	\$3.60	21.9%	\$1.64	168.1%	\$2.20	99.4%

Source : Deutsche Bank Research, Bloomberg Finance LP

Strong top-line performance but some geopolitical uncertainty reducing visibility for 4Q

Meta reported solid 3Q top-line results with **revenue coming in at \$34.1bn, up 23% y/y (~+21% FXN), a 12 point acceleration from 2Q and ~2% ahead of our estimate and consensus**. Advertising results benefited from strong growth in online commerce (particularly driven by advertisers from China). The revenue guidance for 4Q, however, came in below expectations at the mid-point, given a wider range than typical (\$36.5-40bn) was given due to initial softness in the advertising market coinciding with the crisis in Israel. That said, Meta is positioned to capitalize on a strong holiday season, leveraging its Advantage+ product developments. Features rolled out this quarter allow advertiser input to help drive personalization, which should facilitate sales growth amongst marketers over the holidays. Further, Reels is no longer a headwind to revenue growth (one quarter earlier than expected), as monetization has improved to the point where it is expected to be a modest tailwind to revenue growth in FY24.

We also note positive engagement trends on FB and IG with ad impressions up 31% y/y, an acceleration of 14 points y/y. Management noted that CPM growth outpaced the broader ad revenue growth, with Click-to-Messenger being the largest portion. **Click-to-WhatsApp has quickly achieved multi-billion dollar annualized ad revenue, and click-to-Instagram is growing nicely as well. All of these should provide a longer term contribution from business messaging with AI, especially in countries whose businesses rely on WhatsApp. If India is a good barometer of the potential merchant/consumer demand, more than 50% of WhatsApp users interact with businesses on a weekly basis.** With AI Agents (rather than human labor) potentially becoming the interface with customers, business messaging could garner broader appeal beyond countries with a low cost of labor. Encouragingly, the company highlighted business messaging as an important focus area in 2024, which was sooner than we anticipated. Meanwhile, Threads in just three months has achieved just shy of 100 MAUs, and management aims to grow its user base to 1 billion. Looking further out, we think the introduction of AI



Agents has the ability to drive both engagement and pricing growth, and could potentially unlock novel monetization opportunities. All in, on the back of some short term volatility and reduced visibility, we do however modestly lower our 4Q23/ FY24 revenue estimates by ~2% to \$38.2/\$149.3bn, respectively.

Cost efficiency looks durable as Meta incorporates it into its DNA

Meta's year of efficiency looks to be creating durable results as reduced headcount, reallocated budgeting, and more strategic R&D resulted in a 3Q23 OI margin of 40%, ~6 points above street estimates and ~5 points above ours. Meta continued to slow hiring and trim headcount, reducing full-time employees by 24%. The company does anticipate some make-up hiring in FY24, but the pace of headcount additions is expected to moderate thereafter. Importantly, **Meta's guidance for FY24 total expenses came in at \$94-99bn, below consensus of ~\$97bn and the \$97-102bn bogey. Given that, we believe that META has taken seriously the need to continue to drive efficiency, and this guidance should provide a ceiling to where expense growth can get to, given the company's history of lowering opex guidance over time.** We think this represents a key signal to investors that META is serious about weaving efficiency into its core DNA, which likely puts a lid on more pronounced growth in operating expenses going forward.

CapEx Outlook tepid as investments in Gen AI remain prudent

The company lowered its capex outlook for FY23 to \$27-29bn from \$27-30bn previously, however we do not believe this is an indication of a reduced investment cycle. Management stated that they are continuing to grow capex investments, focusing on AI hardware and building datacenters as they continue to pursue opportunities in core and generative AI. Meta is continuing to reallocate capacity to higher ROI projects, optimizing and streamlining capacity wherever possible. As we move into FY24, management guided to \$30-35bn, lower than anticipated (buyside was expecting ~\$35-40bn). We believe capex is unlikely to moderate in a meaningful way given the company has good visibility into the positive ROI profile of its core AI Investments, with clear successes in areas such as ranking and recommending content as well as in AI recommended content, which is the fastest growing category of content on the FB Feed and is responsible for a 7% increase in overall time spent. All that said, we lower our FY23 Capex by \$800mn to \$28bn and we lower our FY24 capex to \$32.5bn from \$38bn in view of the lower guidance range.



Figure 2: META Estimate Revisions

(In millions unless otherwise noted; per share figures in \$)	4Q23E				FY23E				FY24E			
	New	Old	Delta	Chg. (%)	New	Old	Delta	Chg. (%)	New	Old	Delta	Chg. (%)
MAUs	3,069	3,096	(27)	-0.9%	3,069	3,096	(27)	-0.9%	3,129	3,156	(28)	-0.9%
ARPU	\$12.5	\$12.7	(\$0.2)	-1.4%	\$44.0	\$43.9	\$0.1	0.1%	\$48.1	\$48.8	(\$0.7)	-1.5%
Total Revenue	\$38,214	\$39,111	(\$898)	-2.3%	\$133,004	\$133,349	(\$345)	-0.3%	\$149,264	\$152,321	(\$3,057)	-2.0%
– Family of Apps	\$37,378	\$38,275	(\$898)	-2.3%	\$131,343	\$131,598	(\$255)	-0.2%	\$146,822	\$149,682	(\$2,861)	-1.9%
– Advertising	\$37,120	\$38,084	(\$964)	-2.5%	\$130,362	\$130,777	(\$415)	-0.3%	\$145,740	\$148,836	(\$3,097)	-2.1%
– Other	\$258	\$191	\$66	34.6%	\$981	\$821	\$160	19.4%	\$1,082	\$846	\$236	27.9%
– Reality Labs	\$836	\$836	\$0	0.0%	\$1,661	\$1,750	(\$89)	-5.1%	\$2,442	\$2,639	(\$196)	-7.4%
Operating Income	\$14,544	\$15,018	(\$474)	-3.2%	\$44,911	\$43,225	\$1,686	3.9%	\$54,208	\$55,817	(\$1,609)	-2.9%
– Family of Apps	\$18,880	\$19,437	(\$557)	-2.9%	\$60,720	\$59,381	\$1,339	2.3%	\$73,595	\$75,325	(\$1,730)	-2.3%
– Reality Labs	(\$4,336)	(\$4,419)	\$84	n.m.f.	(\$15,809)	(\$16,155)	\$347	n.m.f.	(\$19,387)	(\$19,508)	\$121	n.m.f.
OI Margin	38.1%	38.4%	-34 bps		33.8%	32.4%	+135 bps		36.3%	36.6%	-33 bps	
– Family of Apps	50.5%	50.8%	-27 bps		46.2%	45.1%	+111 bps		50.1%	50.3%	-20 bps	
– Reality Labs	-519%	-529%	n.m.f.		-951.7%	-923.0%	n.m.f.		-793.8%	-739.4%	n.m.f.	
Net Income	\$12,590	\$12,700	(\$110)	-0.9%	\$37,670	\$36,007	\$1,663	4.6%	\$46,895	\$46,686	\$210	0.4%
Net Income Margin	33%	32%	+47 bps		28.3%	27.0%	+132 bps		31.4%	30.6%	+77 bps	
Adjusted EBITDA	\$20,890	\$21,442	(\$553)	-2.6%	\$69,865	\$68,251	\$1,614	2.4%	\$85,349	\$86,908	(\$1,559)	-1.8%
Adjusted EBITDA Margin	55%	55%	-16 bps		52.5%	51.2%	+135 bps		57.2%	57.1%	+12 bps	
Diluted EPS	\$4.88	\$4.89	(\$0.01)	-0.1%	\$14.45	\$13.80	\$0.65	4.7%	\$18.46	\$18.28	\$0.18	1.0%

Source : Deutsche Bank Research

Estimate Changes and Valuation

Based on our updated outlook, we adjust our 4Q23/FY23 revenue outlook to \$38.2bn/\$133bn (+2%/unchanged) from \$39.1bn/\$133bn. However, we decrease our FY23 expense estimates, given the increased focus on ROI efficient spend, and increase our FY24 estimates as Gen and core AI supply constraints alleviate. As a result, our FY23 and FY24 operating income increases by 4% and decreases by 3%. Our EPS estimates go up by ~5%/~1% to \$14.45/\$18.46 in FY23/FY24. We maintain our Buy rating and maintain our target price of \$385, which implies ~21x on our FY24 GAAP EPS of \$18.46.



Appendix 1

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Meta	META.OQ	299.53 (USD) 25 Oct 2023	NA

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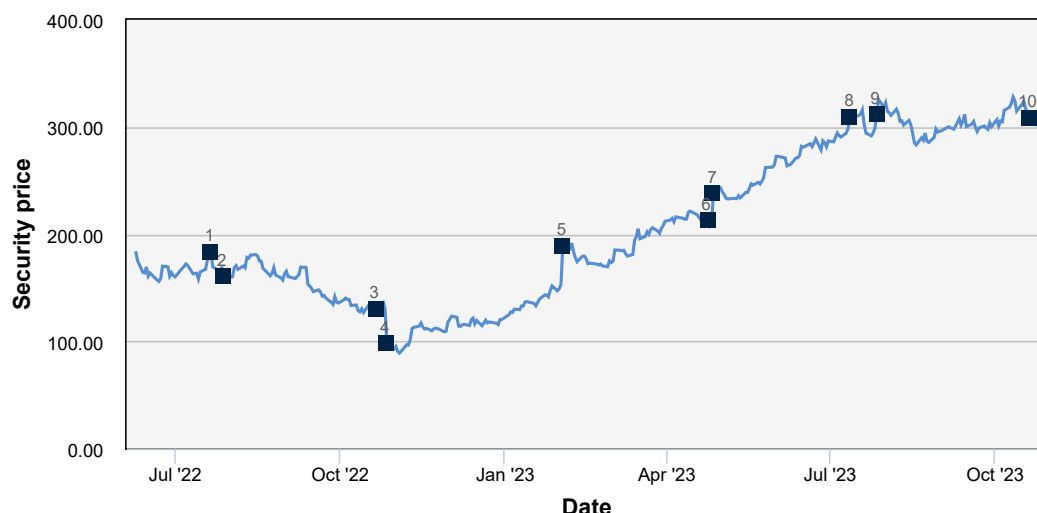
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Historical recommendations and target price: Meta (META.OQ)

(as of 10/25/2023)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	07/21/2022	Buy, Target Price Change USD 235.00, Current Price USD 183.17 Benjamin Black
2.	07/28/2022	Buy, Target Price Change USD 200.00, Current Price USD 160.72 Benjamin Black
3.	10/21/2022	Buy, Target Price Change USD 170.00, Current Price USD 130.01 Benjamin Black
4.	10/27/2022	Buy, Target Price Change USD 125.00, Current Price USD 97.94 Benjamin Black
5.	02/02/2023	Buy, Target Price Change USD 200.00, Current Price USD 188.77 Benjamin Black
6.	04/24/2023	Buy, Target Price Change USD 260.00, Current Price USD 212.79 Benjamin Black
7.	04/27/2023	Buy, Target Price Change USD 290.00, Current Price USD 238.56 Benjamin Black
8.	07/12/2023	Buy, Target Price Change USD 350.00, Current Price USD 309.34 Benjamin Black
9.	07/27/2023	Buy, Target Price Change USD 380.00, Current Price USD 311.71 Benjamin Black
10.	10/20/2023	Buy, Target Price Change USD 385.00, Current Price USD 308.65 Benjamin Black

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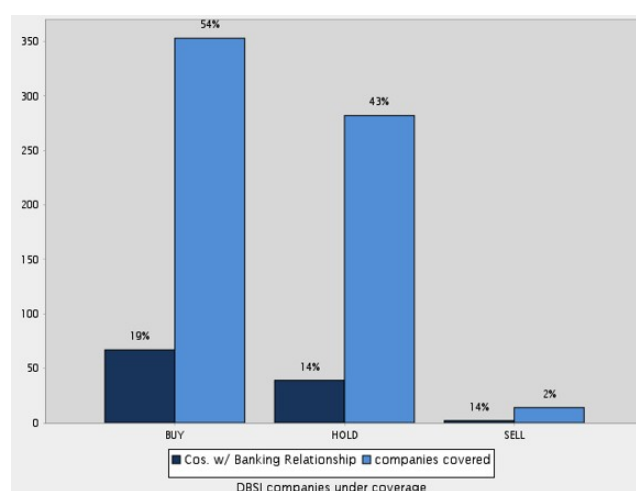
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