



BIREME

META PLATFORMS – VALUEX

Exploiting investor biases to find high-conviction investments in undervalued US equities.

META STOCK PRICE



Meta Platforms Inc	
Ticker: META	

Price	\$147.00
Shares (mm)	2255
Market Cap	\$331,485
Debt	\$34,861
EV	\$366,346
PE ratio	15.08x
EV/EBITDA	11.21x

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022e
Revenue	\$55,838	\$70,196	\$84,826	\$115,655	\$117,005
<i>% growth</i>		25.7%	20.8%	36.3%	1.2%
EBIT	\$24,913	\$23,986	\$32,671	\$46,753	\$32,687
<i>% margin</i>	44.62%	34.17%	38.52%	40.42%	27.94%
EPS	\$7.43	\$7.15	\$9.75	\$13.95	\$9.75
Invested capital	\$85,563	\$113,099	\$141,725	\$141,062	\$150,575
<i>EBIT ROIC</i>	29.1%	21.2%	23.1%	33.1%	21.7%

KPIs					
Total DAUs (m)	1,523	1,657	1,845	1,929	1,982
Total annual ARPU	\$38.19	\$44.46	\$49.10	\$62.50	\$59.84

VALUATION

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Family of Apps Revenue	\$40,653	\$55,838	\$70,196	\$84,826	\$115,655	\$117,005
Reality Labs Revenue			\$501	\$1,139	\$2,274	\$3,184
Total Revenue	\$40,653	\$55,838	\$70,697	\$85,966	\$117,929	\$117,005
OPERATING PROFIT						
Family of Apps	\$20,203	\$24,913	\$28,489	\$39,294	\$56,946	\$46,334
Reality Labs			(\$4,503)	(\$6,623)	(\$10,193)	(\$13,647)
EBIT	\$20,203	\$24,913	\$23,986	\$32,671	\$46,753	\$32,687
Tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net Income	\$16,162	\$19,930	\$19,189	\$26,137	\$37,402	\$26,150
EPS	<u>\$6.03</u>	<u>\$7.43</u>	<u>\$7.15</u>	<u>\$9.75</u>	<u>\$13.95</u>	<u>\$9.75</u>

VALUATION

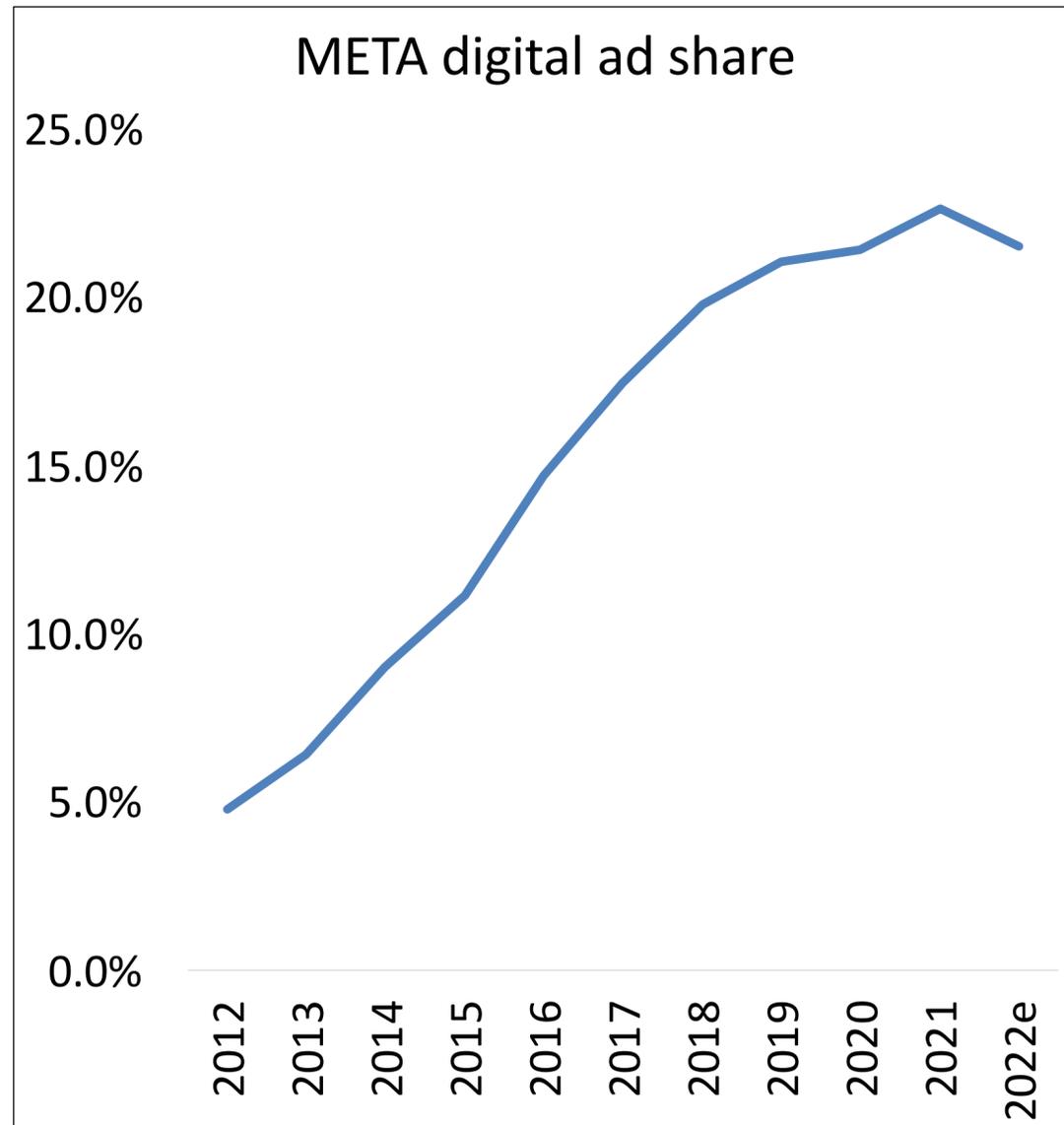
- \$330b market cap, I'd argue this is **6x EBIT of the core business**
- But lots of **garbage** to see through:
 - 2022 slowdown and margin compression
 - Tiktok, spend on AI, lack of current FCF
 - \$13-15b in Metaverse losses

2022 - WHY THE DECLINE IN PROFITS

- 2 factors:
 - 1) ATT = \$10b loss of revenue
 - 2) Industry wide digital ad slowdown
- META hired for >10% growth, and **it didn't materialize**
- We still think the core business is healthy

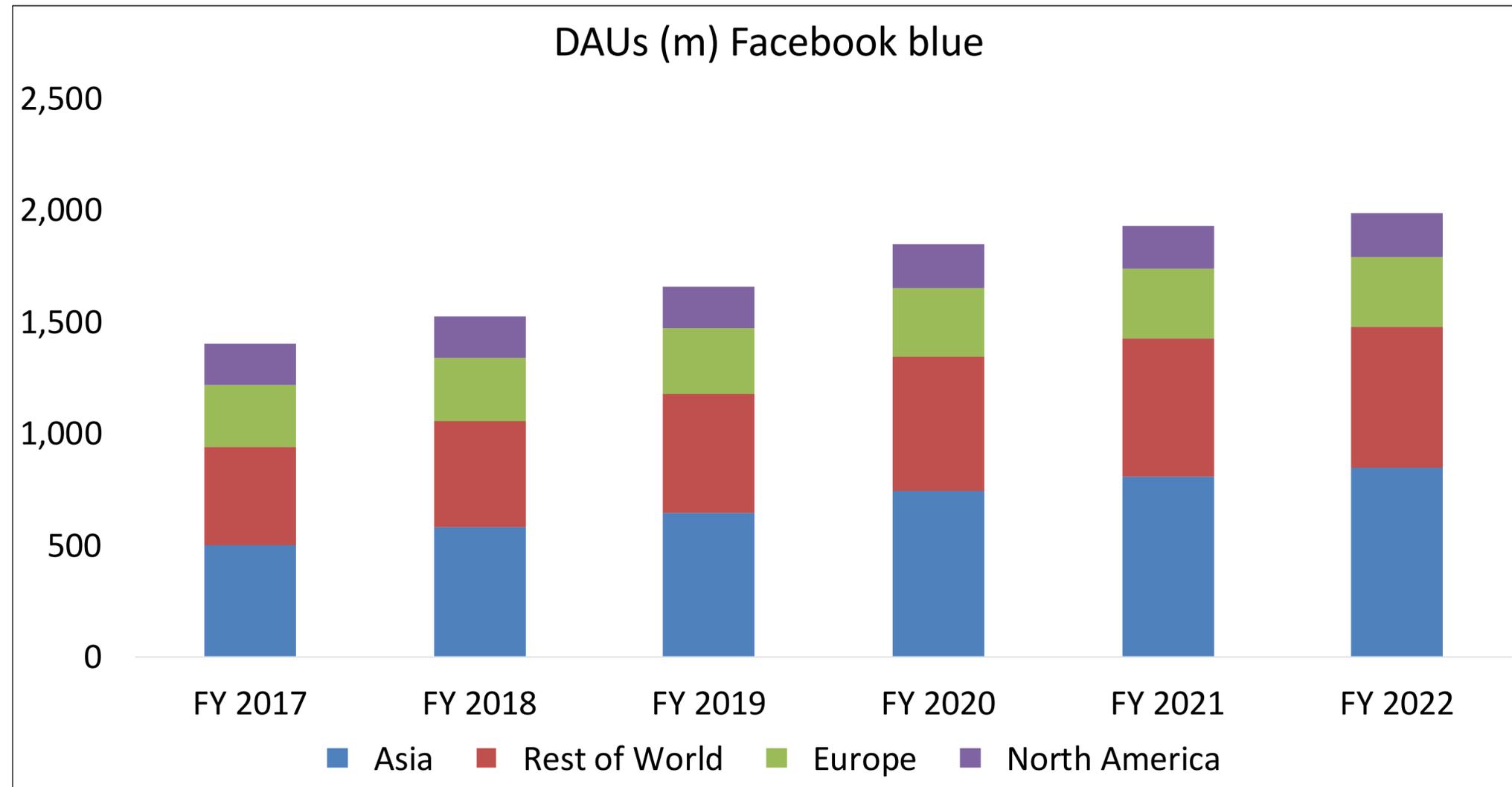


HEALTH OF THE CORE BUSINESS



- Users
 - 1.9b, growing slowly
- Engagement
 - Flat to up
- Revenue
 - Slight decline in digital ad share in '22

HEALTH OF THE CORE BUSINESS



HEALTH OF THE CORE BUSINESS

- Dave Wehner CFO, Q3 2022 call:
 - *“Specifically in terms of aggregate time spent on Instagram and Facebook, both are **up year-over-year** and in both the US and globally.*

So while we're not specifically optimizing for time spent, those trends are positive. ”
- Head of Facebook Blue, Internal memo in Nov 2022:
 - *“Facebook engagement is stronger than people expected. Our internal data indicates that Meta has **grown to a meaningful share** of short-form video.”*

MARGINS

- Even excluding Reality Labs, margins have fallen
- 2022 margins appear to have dropped 1,000 bps
- We still think this is a 45%+ margin business

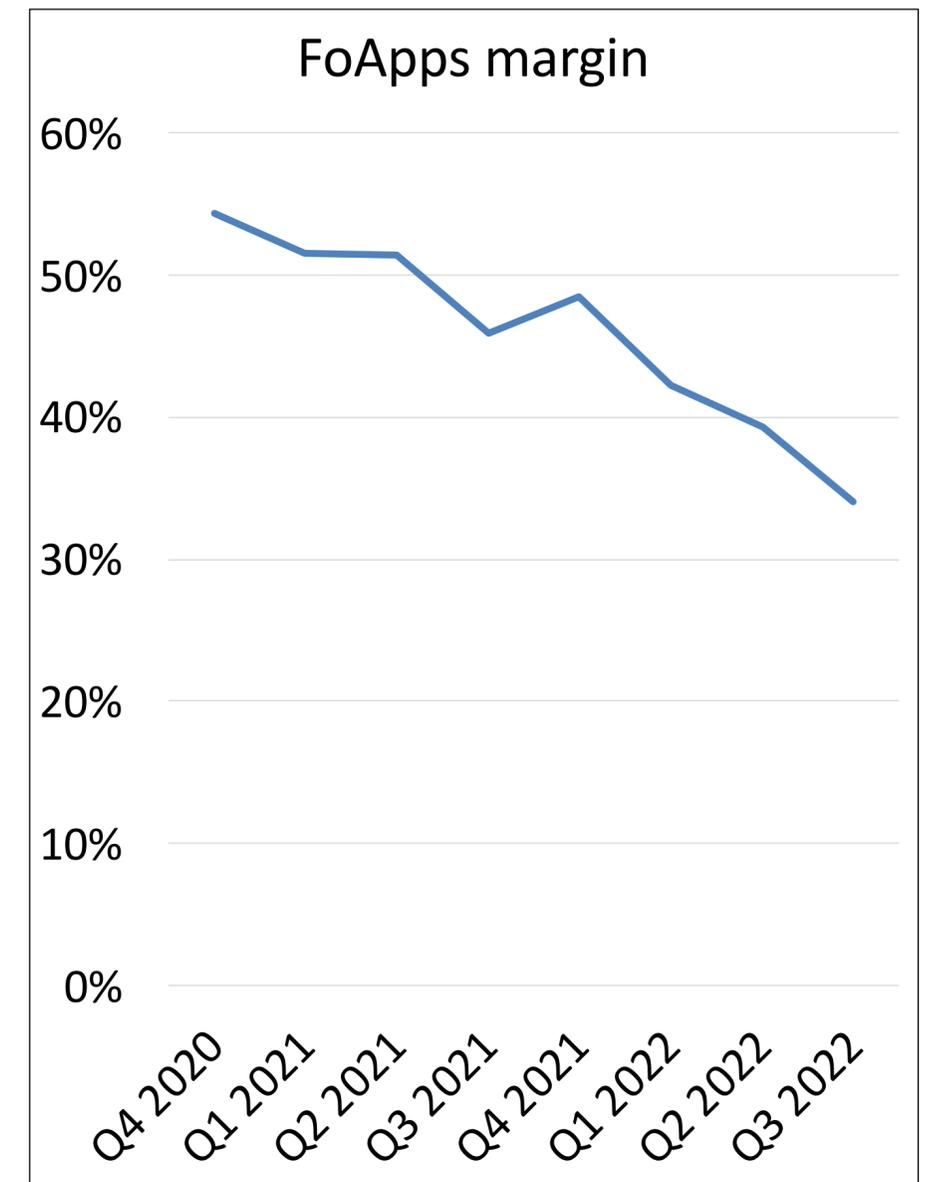
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Is Meta Considering More Layoffs? Zuckerberg Says He Doesn't Like 'Managers Managing Managers'

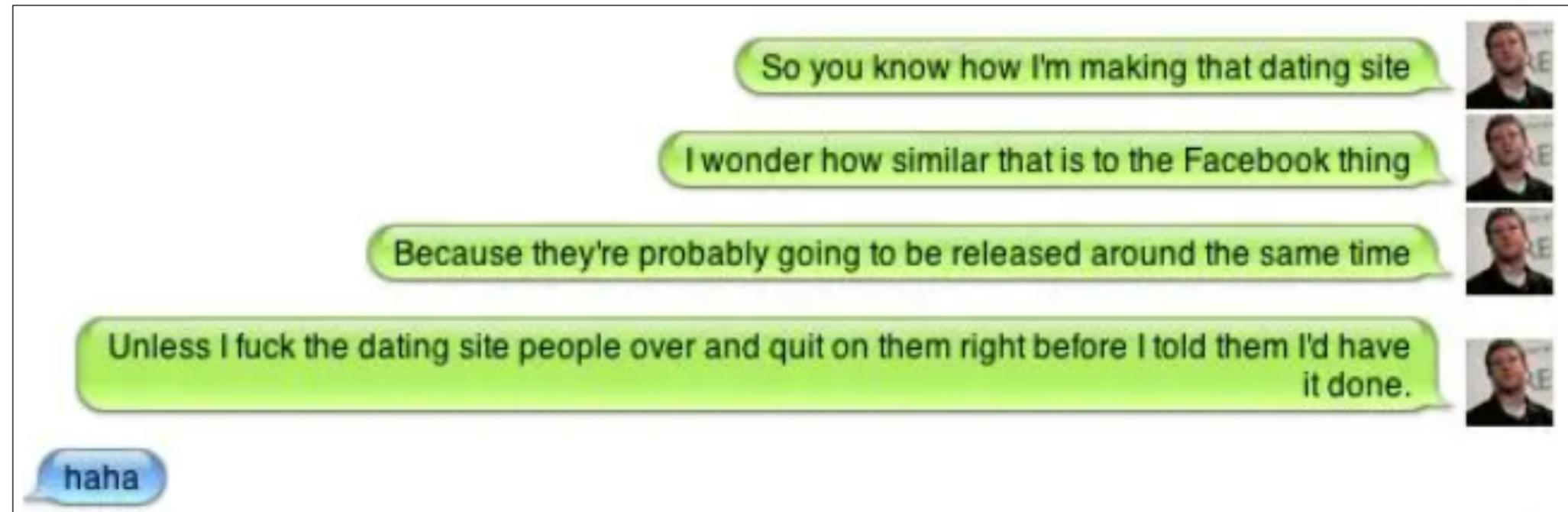
Bibhu Pattnaik

(Benzinga Newswire)

Meta Platforms Inc (NASDAQ:META) CEO **Mark Zuckerberg** is hinting at possible additional layoffs, after the social media giant announced 11,000 job cuts, or 13% of its total workforce, last November.



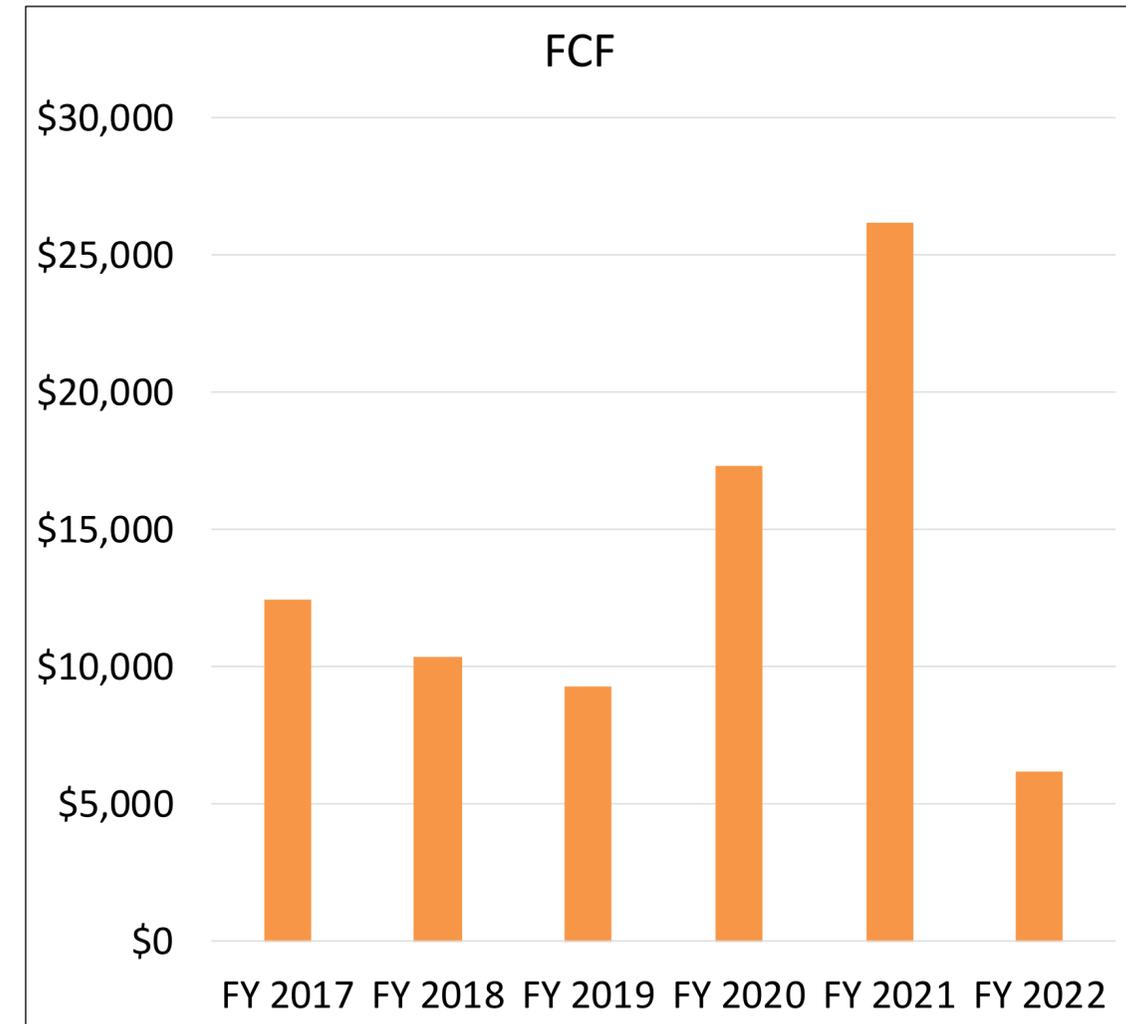
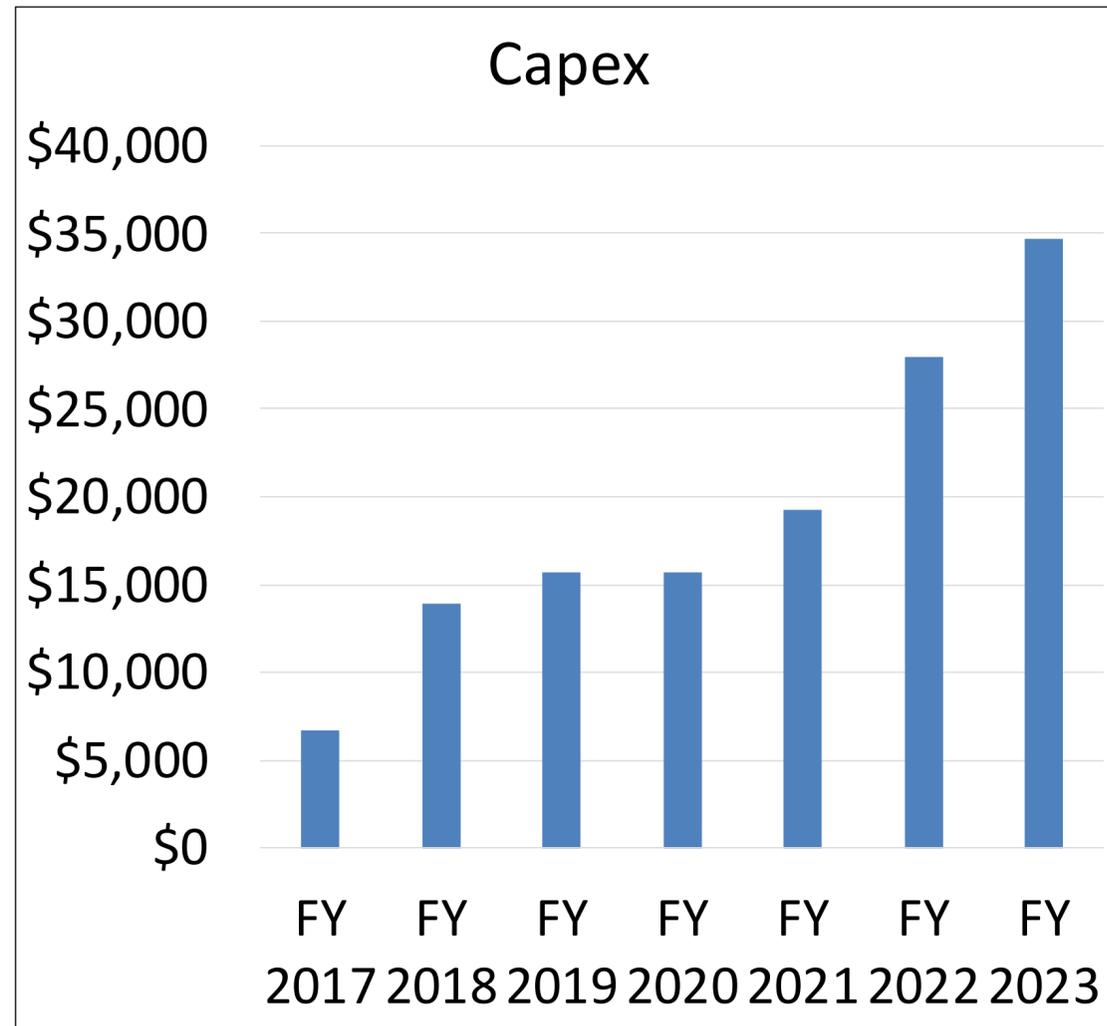
ZUCKERBERG – RUTHLESS ENOUGH?



Zuckerberg IM exchange while at Harvard

- We think he is **more than capable** of making the necessary cuts

FREE CASH FLOW



These investments were planned during the boom... they **won't continue forever**

FREE CASH FLOW

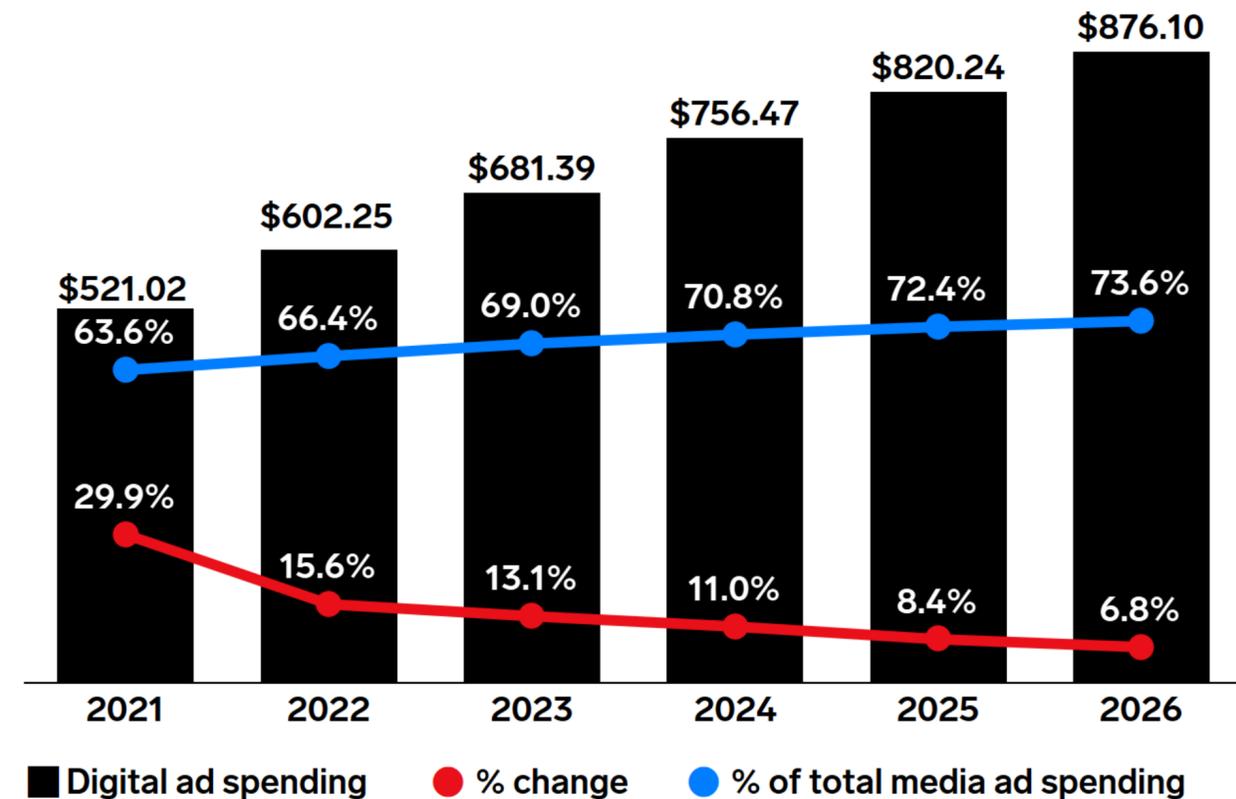
- CFO Q3 2022:
 - *“These investments, along with revenue headwinds, are contributing to higher capital expenditures as a percentage of revenue in 2022 and 2023 **than we expect over the long-term.**”*
 - *“An increase in AI capacity is driving substantially all of our capex growth in 2023”*
- Susan Li Q3 2022:
 - *“We're very **focused on evaluating the ROI** of our AI investments and that will inform our level of future spend.”*

TIKTOK

- TikTok prob grows \$10b to \$100b
- Meta can still grow materially
- Reels has been ramping

Digital Ad Spending Worldwide, 2021-2026

billions, % change, and % of total media ad spending



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms

Source: eMarketer, March 2022

T11897

eMarketer | InsiderIntelligence.com

MY PROJECTIONS

- Meta loses some share to TikTok, Amazon, Apple
- Digital ad market grows double digits
- Revs grow to \$190b, EPS to \$24 per share
- Stock probably trades at ~\$500 per share

