

Meta Platforms

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Overview

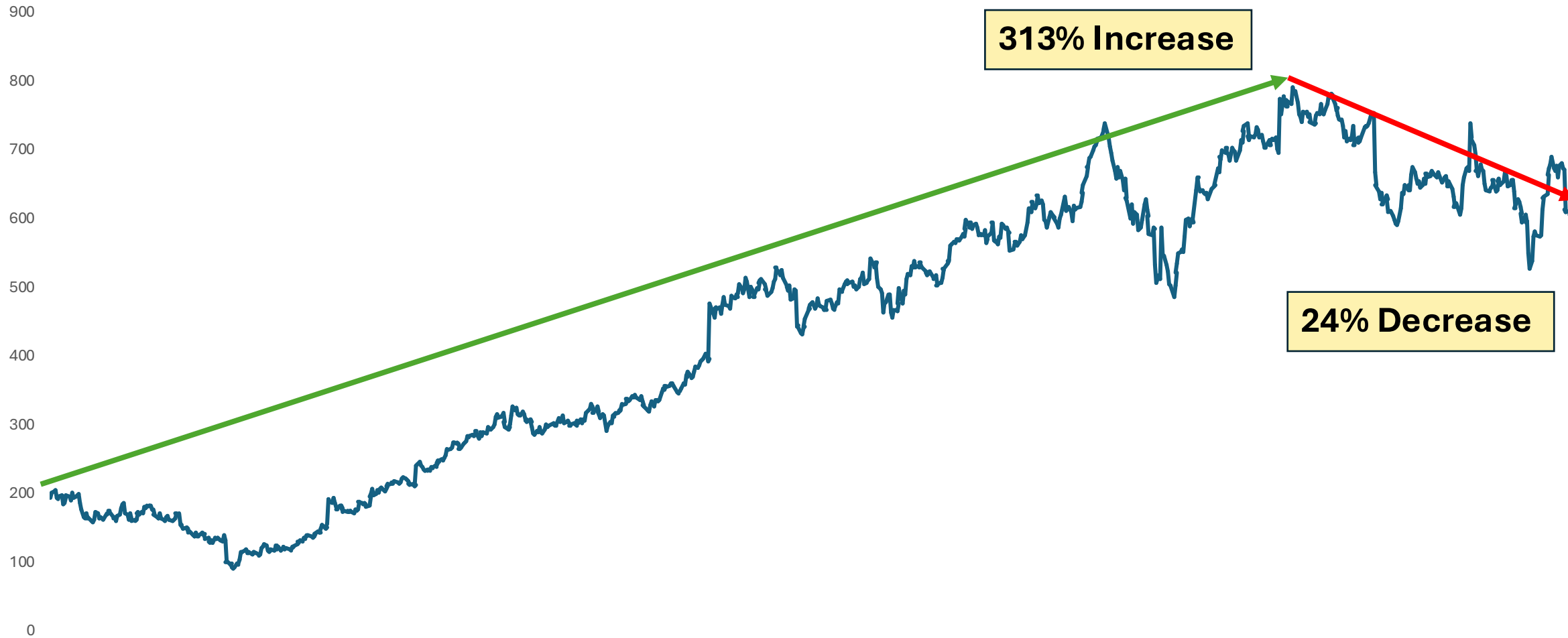


Ticker: META

Stock Price:
\$598.86

- Builds products that connect and share across mobile, PCs, VR headsets, and AI glasses
 - Founded 2004; IPO 2012
- FY2025 revenue of \$200.97B (+22% YoY)
 - Family of Apps 98.9% of revenue (\$198.76B); Reality Labs 1.1% (\$2.21B)
 - Advertising \$196.18B; other \$2.58B
- Market capitalization of ~\$1.52T
- Mark Zuckerberg, founder, chairman, and CEO since 2004 (~22 years)

4 Year Stock Performance (since May 2021)



Revenue

	2023	2024	2025
Revenue	134,902	164,501	200,966
<i>YoY Sales Growth (%)</i>	16%	22%	22%
Operating Income	46,751	69,380	83,276
<i>Operating Margin (%)</i>	35%	42%	41%
Capital Expenditures	(27,045)	(37,256)	(69,691)
<i>YoY Capex Growth (%)</i>	-14%	38%	87%
ROIC	38.3%	51.1%	35.7%

Capex has grown 87% YoY – far outpacing revenue growth (22%) but operating margins have fallen by only 1%.

Meta has shown they can still maintain strong operating margins while spending aggressively due to their high ROIC.

FY2025 Revenue Breakdown

- **By segment (FY2025 revenue: \$200.97B)**
 - Family of Apps: \$198.76B (98.9%)
 - Reality Labs: \$2.21B (1.1%)
- **By line item**
 - Advertising: \$196.18B
 - Other: \$2.58B
- **By customer billing geography**
 - US & Canada: \$78.87B (39.2%)
 - Asia-Pacific: \$53.82B (26.8%)
 - Europe: \$46.57B (23.2%)
 - Rest of world: \$21.71B (10.8%)

Industry Overview

- **Digital advertising and social-media attention markets**
 - Smaller, growing exposure to consumer AI and VR/AR hardware and software
 - Largest scaled players: Alphabet, Amazon, Snap, Pinterest, and ByteDance via TikTok
- **Peer 2025 advertising scale**
 - Alphabet Google advertising: \$294.69B
 - Amazon advertising services: \$68.64B
 - Snap total revenue: \$5.93B; Pinterest total revenue: \$4.22B
 - TikTok: more than 1B monthly users globally; >200M monthly users in Europe
- **Structural shift**
 - Move beyond 2D screens toward mixed reality and AI; AI-optimized data-center capacity is becoming the key infrastructure layer

Industry Market Dynamics

- **Rivalry: high**
 - Meta cites direct competition from TikTok and products that appeal to younger users
 - Large ad budgets also contested by Alphabet and Amazon
- **Threat of new entrants: low; Buyer power: medium to high**
 - \$131.05B of non-cancelable contractual commitments (cloud, servers, networks, data centers, RL hardware) raise barriers
 - Marketers generally do not have long-term commitments and many spend only a small share of total budgets
- **Supplier power: medium and rising; Substitute pressure: high**
 - AI infrastructure now requires large purchases of chips, fiber, cloud, power, and construction capacity
 - Marketing budgets can move among search, retail media, short-form video, streaming, and other channels

Core Product Portfolio

- **Family of Apps (98.9% of FY2025 revenue)**
 - Facebook, Instagram, Messenger, WhatsApp, and Threads
 - Q1 2026: 3.56 billion Family daily active people on average for March 2026
 - Substantially all revenue is generated from advertising on Facebook and Instagram
- **Reality Labs (1.1% of FY2025 revenue)**
 - VR/AR hardware and software business; remains loss-making but strategically important
 - Built on the 2014 Oculus acquisition; ships Quest headsets and Ray-Ban Meta smart glasses
- **AI stack**
 - Meta AI assistant, Llama open-source model family, Muse model family from Meta Superintelligence Labs
 - Company says it has broken ground on 10 data centers in the last 24 months for AI-optimized capacity

Competitive Standing

- **Largest direct competitive position is in social attention and ad delivery**
 - 3.56 billion Family daily active people in March 2026 — among the largest user bases of any consumer platform
 - Owns several of the world's largest consumer apps and ad-delivery systems
- **Position differs by rival**
 - Alphabet leads search-intent and scaled video via YouTube; Amazon owns commerce-intent inventory near point of purchase
 - TikTok has a powerful short-video recommendation engine and large attention share with younger users
 - Snap holds AR-oriented positioning with younger audiences; Pinterest holds explicit commercial-intent discovery
- **Direction of advantage looks stable**
 - Better: ad impressions and average price per ad both rose in Q1 2026; AI ranking and ad tools improving
 - Worse: Reality Labs remains loss-making, switching costs are limited, and US/EU regulatory pressure remains high

Competitive Advantage

- **Network effects: high**
 - 3.56 billion Family daily active people; users and advertisers reinforce each other across Facebook, Instagram, Messenger, WhatsApp, and Threads
- **Intangible assets: high**
 - Owns several of the world's largest consumer apps and ad-delivery systems; AI ranking and Advantage+ tools showed measurable conversion improvements
- **Barriers to entry: high**
 - \$131.05B of non-cancelable contractual commitments and large compliance burdens; 2026 capex guided \$125–\$145B
- **Cost advantage: medium**
 - Scale benefits in ad inference, measurement, and infrastructure — partly offset by very large ongoing capex; switching costs are low for users and low-to-medium for advertisers

Upcoming Catalysts

- **Near-term reporting and corporate events**
 - May 27, 2026 annual meeting
 - Q2 2026 revenue guided to \$58B–\$61B
 - Q1 2026: revenue \$56.31B; ad impressions and average price per ad both rose
- **AI infrastructure build and product roadmap**
 - 2026 capex range raised to \$125B–\$145B (from \$115B–\$135B)
 - April 30, 2026: \$25B of investment-grade bonds issued to fund AI infrastructure
 - Muse model family launched as first products from Meta Superintelligence Labs

Strong Financial Position

- **Balance sheet: medium gross leverage, low net leverage**
 - March 31, 2026: \$58.75B long-term debt; \$81.18B cash, equivalents, and marketable securities
 - Net cash position before April 30 financing; \$25B bond issuance subsequently raised gross debt with corresponding cash
- **Cash flow generation**
 - Q1 2026 operating cash flow: \$32.23B
 - Q1 2026 free cash flow: \$12.39B (after \$19.84B of capex)
- **Reinvestment intensity: high**
 - FY2025 capex: \$72.22B; 2026 capex guidance raised to \$125B–\$145B
 - Share repurchases and dividends continued alongside elevated AI and hardware investment

Why it trades at a deep discount

AI investments need to prove they will produce attractive returns

- AI has already shown to improve advertising effectiveness
- The plan for monetization is not totally laid out yet but there are some clear opportunities
 - Shopping in Facebook and Instagram has been successful and Meta AI has the possibility of enhancing that experience for users if it's good (which Muse Spark has shown it is)
 - Competitors are pursuing similar strategies
 - Alibaba taps into China's 'chat to buy' trend via Qwen AI and Taobao integration (SCMP)
- “We're already testing an early version of business AIs, and weekly conversations have grown 10x since the start of this year.” – Mark Zuckerberg, Q1 2026 (earnings call)

AI investments reduce income available to shareholders

- Meta has historically had high ROIC (>30%)
- Meta has high margins with a strong balance sheet, allowing for cheap financing of capital, reducing interest expenses
- Being a tech company, they can fully leverage AI for productivity and efficiency gains to help offset capital expenditures (more regulated industries have to be careful)

Why it trades at a deep discount

Reality Labs has wide losses

- While the Metaverse has failed, smart glasses have done extremely well
 - “Our AI glasses continue to perform well with the number of people using them daily tripling year-over-year.” – Mark Zuckerberg, Q1 2026 earnings call
- You win some, you lose some
- “We remain the biggest investor in the VR space across the industry, but we are focused on making our VR business sustainable as we invest more in other areas like AI and glasses.” – Mark Zuckerberg, Q1 2026 earnings call
 - Management has acknowledged it and is taking steps to correct it

Legal and Regulatory

- Both voters and lawmakers have unfavorable views on social media
- It is unlikely these issues are resolved in Meta’s favor, which warrants a discount to historical valuation

Management

Founder-led with deep ownership alignment

- Mark Zuckerberg, founder, chairman, and CEO since 2004 (~22 years); controlled 60.8% of voting power as of April 1, 2026
- \$1 salary; does not participate in the annual cash bonus plan

Broader executive team

- Subject to stock ownership guidelines, but the annual cash bonus framework is committee-discretionary and tied to broad priorities rather than explicit operational milestones

Capital allocation evidence

- Willingness to fund operating priorities (capex rose from a 2023 plan of \$34–39B to a 2026 plan of \$125–145B); share repurchases and dividends continue alongside elevated investment

Management

- Product launches: largely on time Ray-Ban Stories (2021), Quest Pro (2022), Quest 3 (2023), Llama 2 (2023), Llama 3 / Meta AI (April 2024) all shipped within stated windows
- 2022–23 cost reset achieved
 - "Year of efficiency": headcount down 22% year over year by Q4 2023; management stated efficiency goals were achieved middle-management layers were reduced, and management declared the initiative achieved by early 2024
 - The cost reset worked: later expense guidance declined and management explicitly cited the leaner org as enabling faster execution
- Reels and ads rebuild delivered, but slowly
 - By Q2 2023, Reels run-rate exceeded \$10B; Advantage+ end-to-end revenue more than doubled YoY by Q1 2024
- Weaker areas
 - Budget discipline and long-cycle disclosure
 - 2025 capex revised from \$60–65B to \$70–72B; 2026 capex revised from \$115–135B to \$125–145B within a quarter
 - Reality Labs unit economics and "most-used AI assistant" benchmark remain unverified

Management has shown they operate as owners and understand what drives business value.

Earnings Growth

- Meta guided to Q2 2026 revenue of \$58B–\$61B on the Q1 2026 earnings call (April 29, 2026)
- Revenue trajectory: \$134.90B (2023, +16%), \$164.50B (2024, +21%), \$200.97B (2025, +22%); Q1 2026 \$56.31B
- Q1 2026 ad impressions and average price per ad both rose; AI-driven ad ranking and Advantage+ tools showed measurable conversion improvements
- Industry: digital advertising remains the dominant pool, with consumer AI and VR/AR as adjacent growth vectors
- 3.56B Family DAP gives the largest reachable ad audience among scaled peers

Valuation – 80% confidence range

	Bear	Base	Bull
Revenue	\$251,208	\$257,236	\$261,256
<i>YoY Growth (%)</i>	25%	28%	30%
Net income	\$82,898	\$90,033	\$96,665
<i>Net income margin</i>	33%	35%	37%
EPS	\$32.40	\$35.20	\$37.80
P/E	19x	21x	23x
Target Price	\$616	\$739	\$869
Upside (%)	3%	23%	45%

Risks

Concentration in advertising

- Substantially all revenue is from advertising on Facebook and Instagram; advertisers lack long-term commitment. Severity: Medium
 - Downturn in spending because of recession unlikely
 - AI has shown it works in advertising

Competition for users and ad budgets

- TikTok and other platforms strong with younger users; Alphabet and Amazon contest large ad budgets. Severity: Medium

Regulatory, litigation, and antitrust exposure

- EU/US matters across privacy, content, youth safety, AI, and competition could significantly affect results. Severity: Medium | Probability: High

Capital intensity and AI execution risk

- 2026 capex raised from \$115–135B to \$125–145B in one quarter; predictability has weakened. Severity: High

Meta Platforms: Summary Investment Thesis

- ✓ Massive scale: 3.56B Family DAP and FY2025 revenue of \$200.97B (+22% YoY)
- ✓ Wide moat: high network effects, intangibles, and barriers to entry; advantage looks stable
- ✓ Strong cash generation: Q1 2026 OCF \$32.23B
- ✓ High return on invested capital
- ✓ Demonstrated operating discipline: 2023 'year of efficiency' delivered
- ✓ Meta smart glasses have been a huge success and provide another point of AI interaction
- ✓ Have accepted Reality Labs shortcomings and taken steps to pivot
- ✓ AI has proven to improve advertising + promising early signs from Muse Spark / Meta AI
- ✓ Market is pricing in a bear scenario leaving asymmetric upside

Meta is a good business, in a good industry, with good management, at a good price.