



TME Committee

**Jacob Robb
David Ewing
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NASDAQ: META

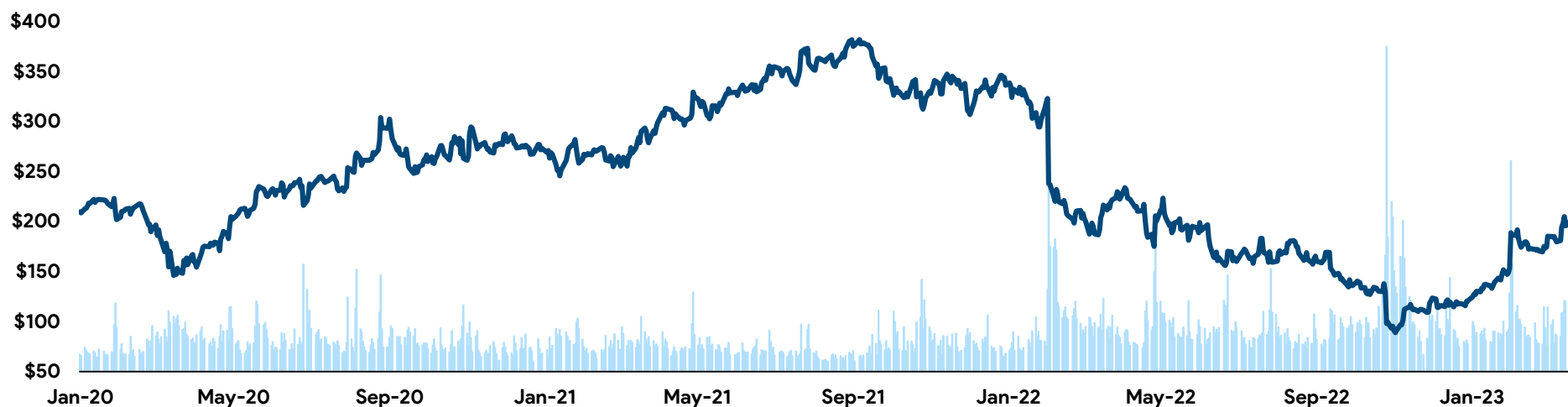
Investment Narrative



Market Cap	\$525.9B
Last Close	\$202.84
52 Week Range	\$88.09 - \$236.86
5 Year Rev CAGR	23.5%
EBIT Margin	28.8%

Investment Thesis

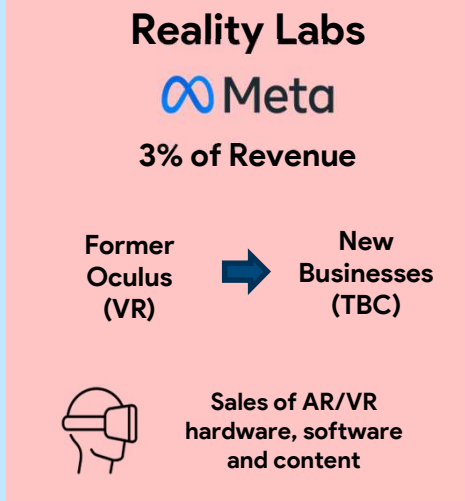
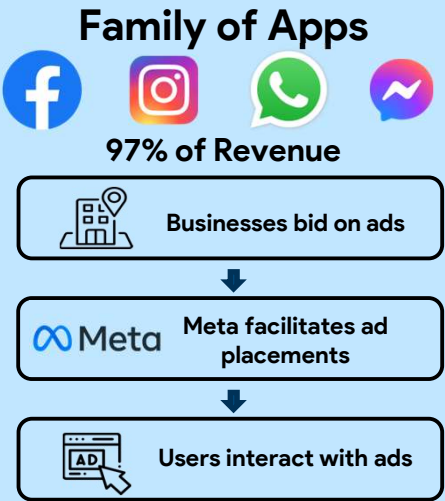
1. Zuck's "Year of Efficiency" refocuses the business on prioritizing profitability: headcount rationalization, reducing data center spending, and revising capital structures are paramount
2. Increased investments into Reels and proprietary AI capabilities with the aim of more effective ad delivery: drives top-line
3. The market's perception of TikTok and IDFA as a significant threat to Meta is misunderstood: the Meta user base & time spent has consistently increased and offers a more valuable audience than ever



Company Overview

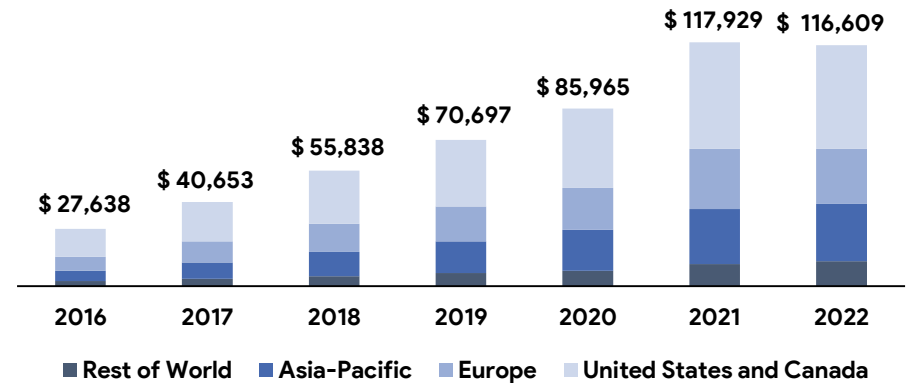
A Market Leader in Advertising with 3.7 Billion Monthly Active Users

A Family of Apps Used by Half the World's Population

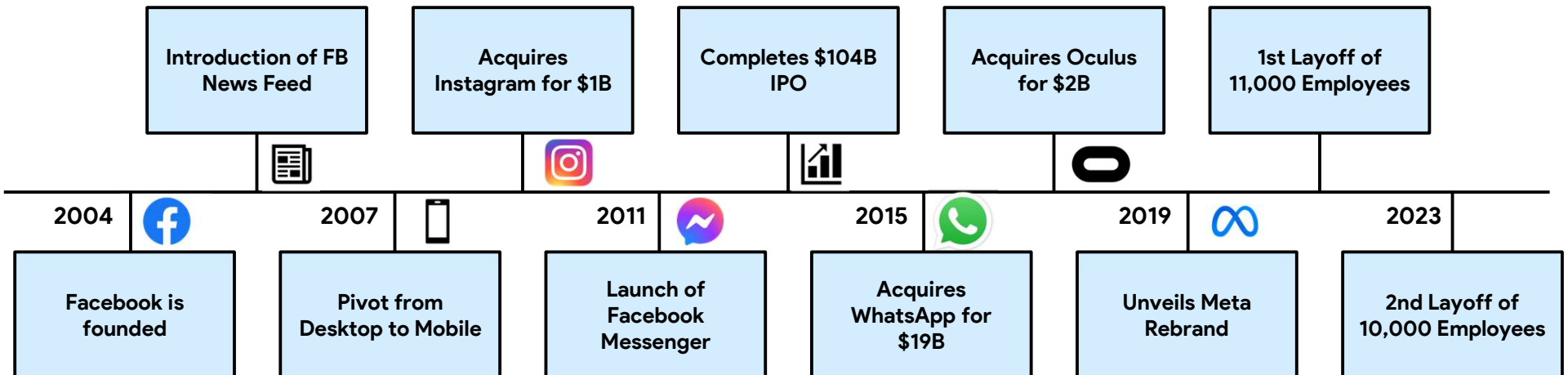


Revenue from a Global User Base

Revenue by Region (\$ Billions)



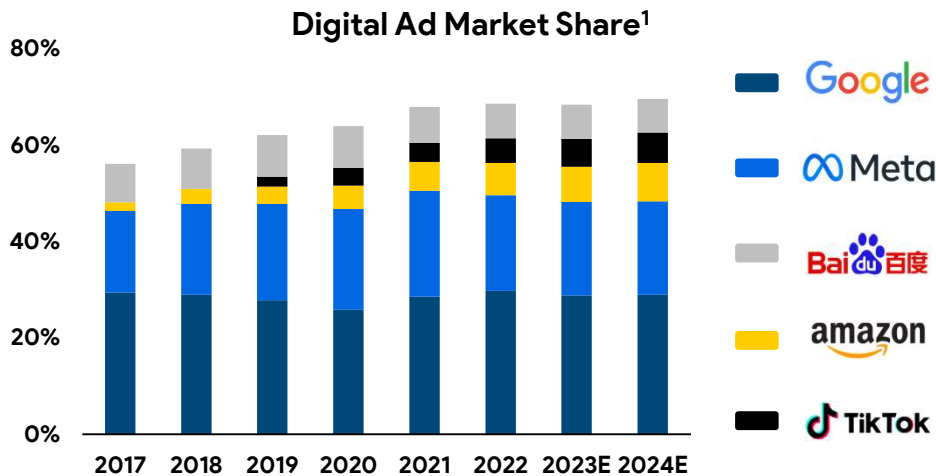
Timeline of How Meta Created a Social Media Conglomerate with Unprecedented Scale



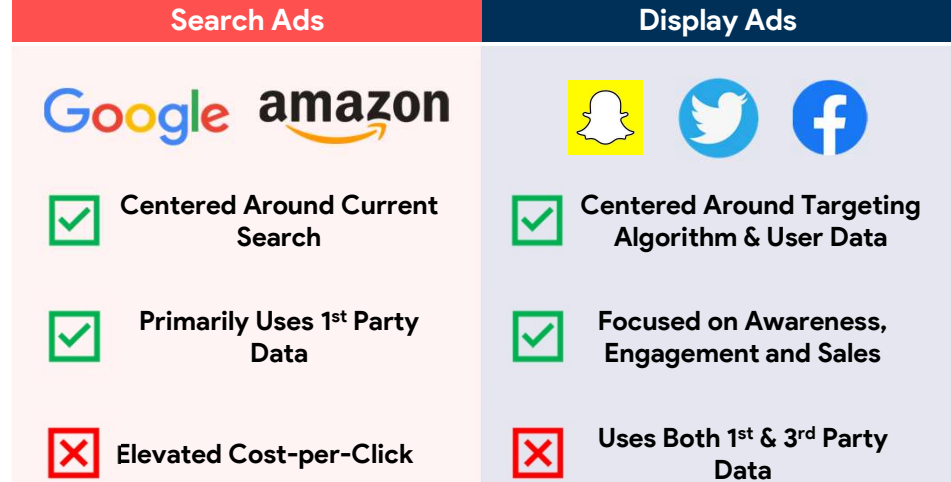
Industry Overview

Digital Advertising Breakdown

Resilient Duopoly

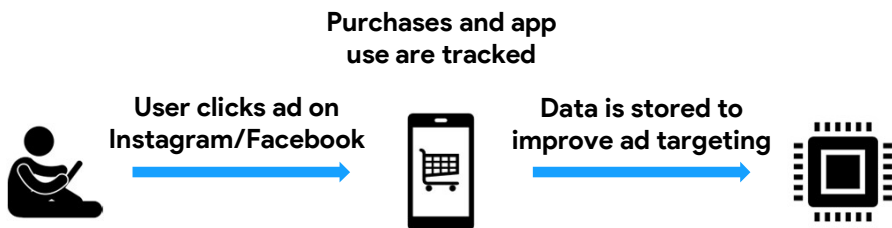


Not All Ads Are Created Equal



IDFA: from Opt-Out to Opt-In

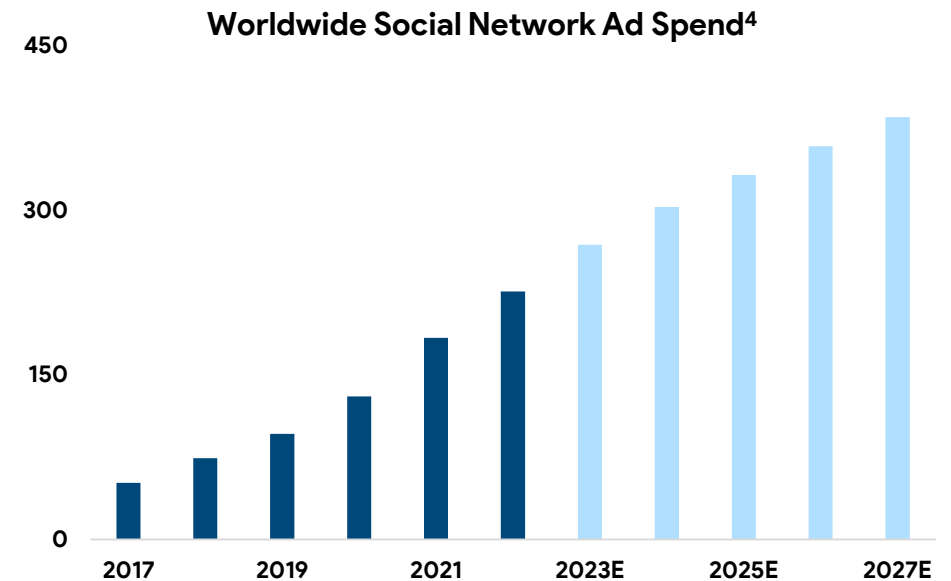
Pre-iOS 14.5: April 2021 Update



Post-iOS 14.5



Advertisers Continue to Rely on Social Media

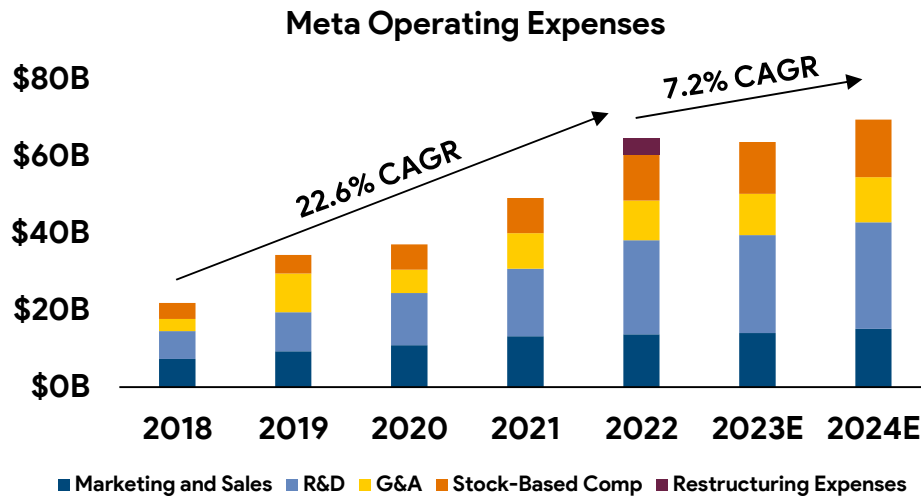


(1) eMarketer (2) Revealbot (3) Wordstream (4) Statista

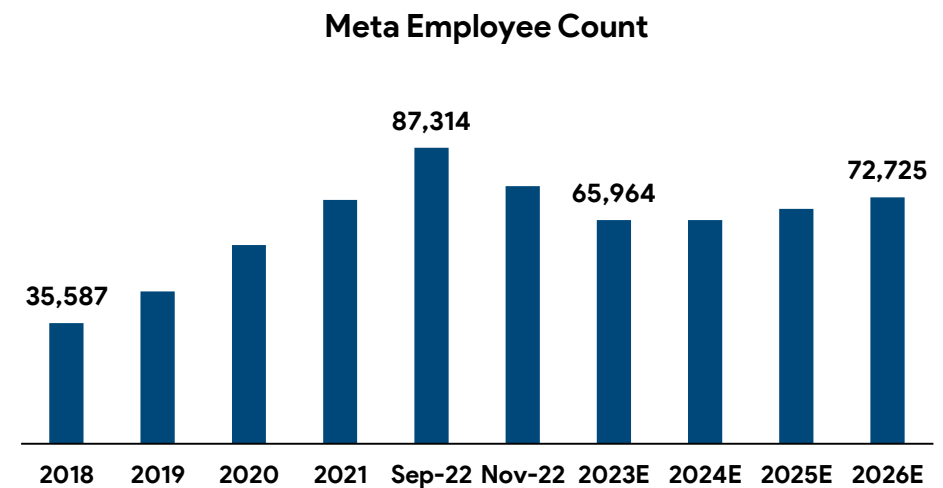
The Year of Efficiency – Reducing Headcount and Operating Expenses

Meta's Problems are Self-Inflicted, and Zuckerberg is Turning the Ship Around...

Flattened OpEx After Years of Runaway Spending



Including Significant Headcount Reduction



Combined with AI/ML and Efficiency Improvements



New data center architecture drives lower CapEx growth and higher efficiency

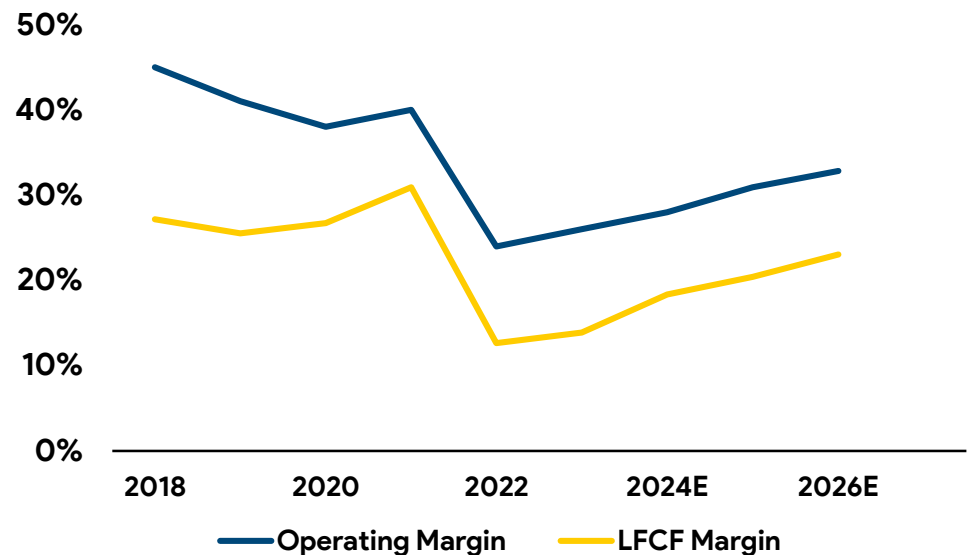


Reevaluating and extending the useful life of depreciable servers to drive down D&A expenses



Scaling of on-site conversions such as Click-to-Message, Lead Ads and Shop Ads will help bring incremental demand onto Meta's platforms

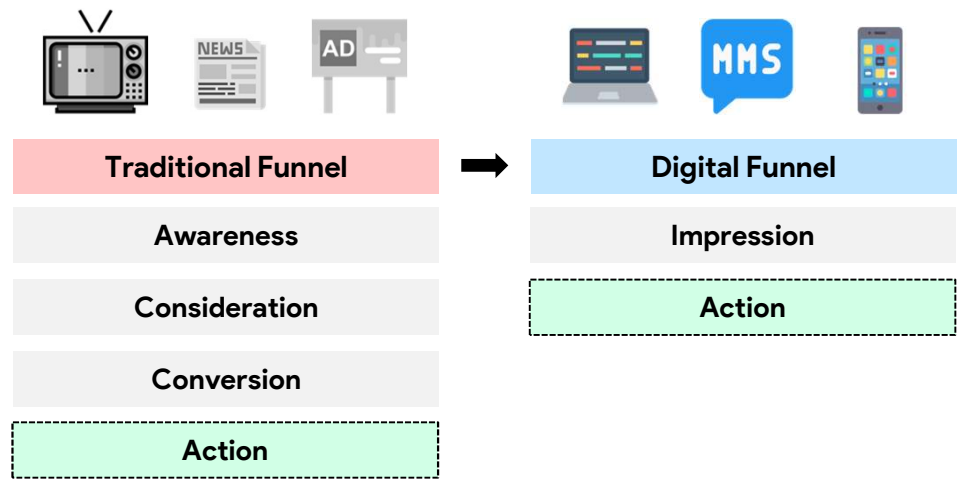
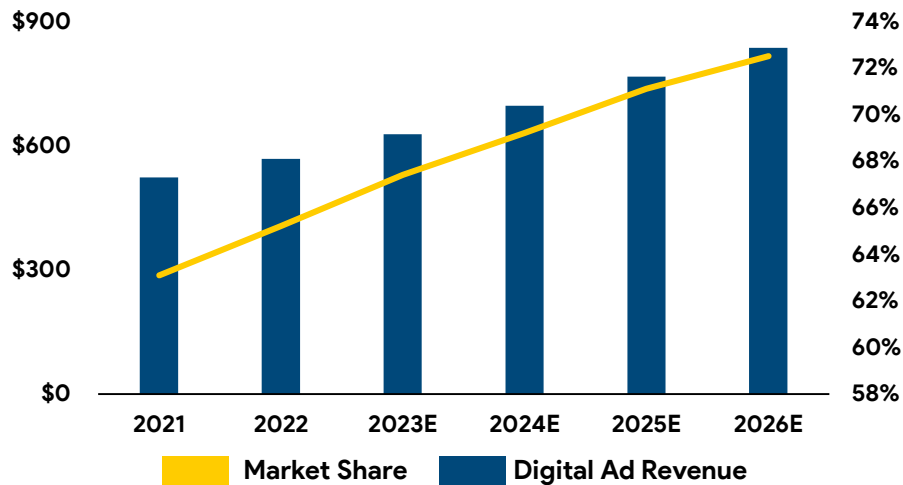
Will Drive Margins Higher, Closer to Historical Levels



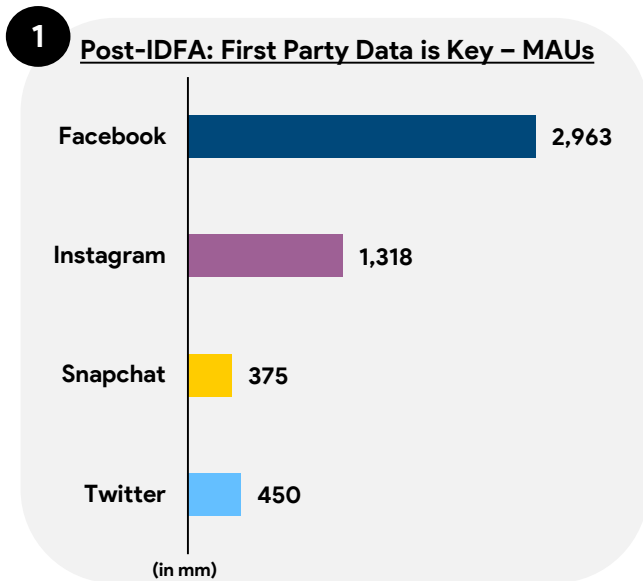
Display Advertising Dollars favor Meta's Platform

CPMs will flow into the highest ROI channels

Gradual Shift from Traditional -> Digital¹



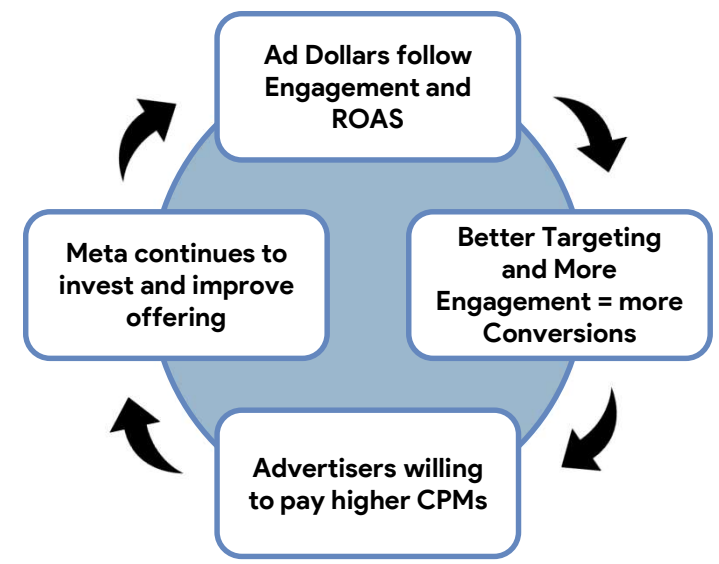
In an ATT world, AI can Widen Meta's Moat²



- 2 The Best platform can become Better:**
- ~~✗~~ Audience: 3.7B
 - ~~✗~~ Ad load: churn
 - ↑ Click-through Rate

- 3 Cutting Edge AI Applications**
- Reels
 - Advantage+
 - Black Box Approach

Self-Optimizing

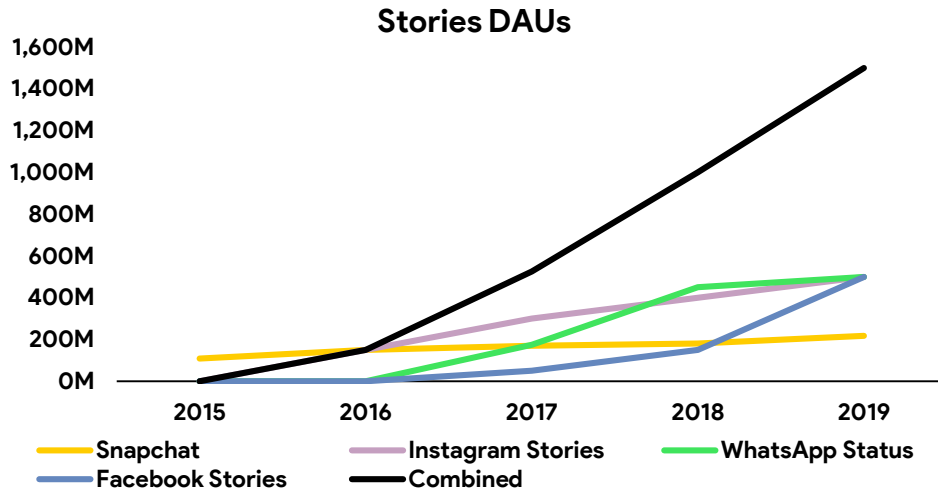


(1) eMarketer

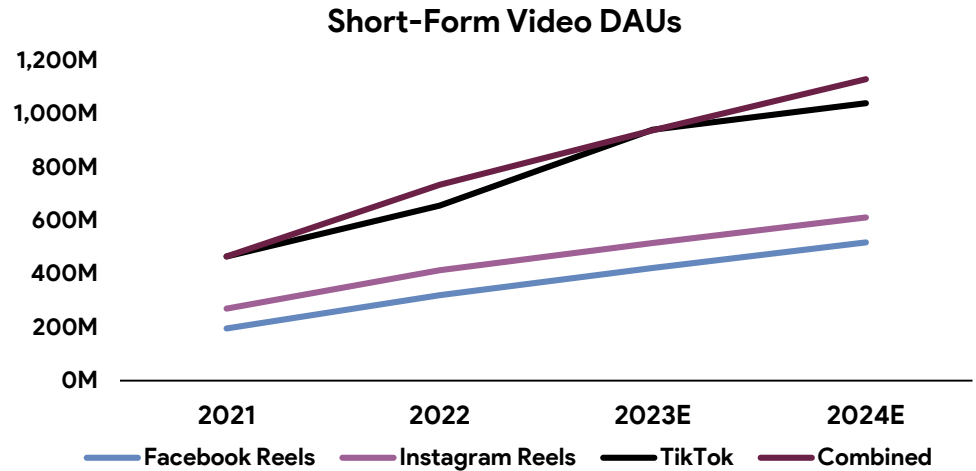
The Reel Deal – Advertising on Reels

Like Stories, Meta has Successfully Cloned and Commoditized Short-Form Video

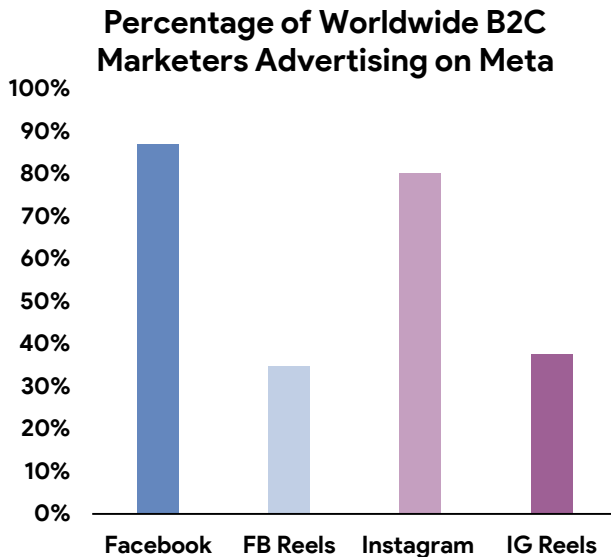
Meta's Scale Has Allowed it to Neutralize Competitors¹



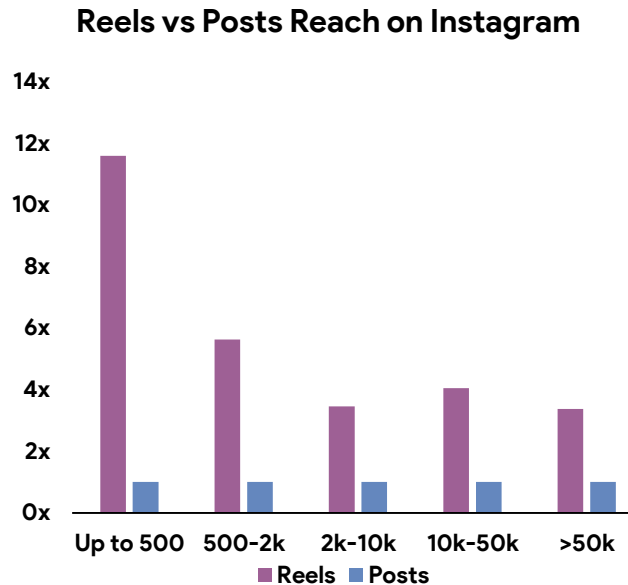
TikTok User Growth has Deaccelerated²



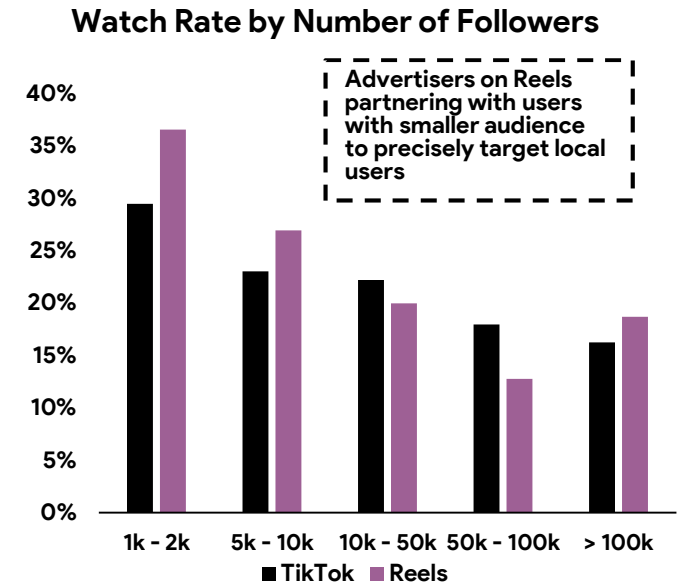
Most Advertisers Already Use Meta³



Reels' Algorithm Promotes a Higher Reach⁴



And Has a Structurally Higher Watch %⁵

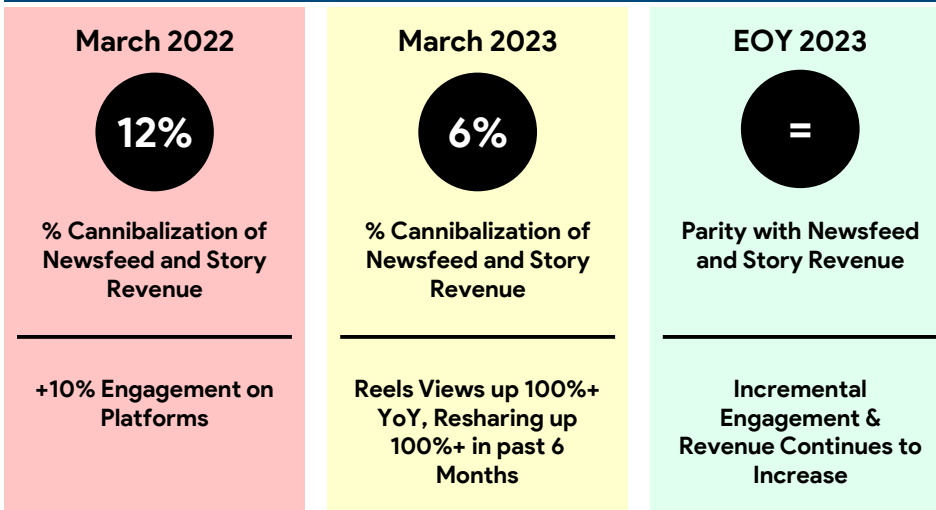


(1) Meta, Snap Company Filings, (2) eMarketer, Meta Company Filings, Morgan Stanley Research (3) Digital Information World, UBS Global Investment Research (4) Metricool (5) SocialInsider

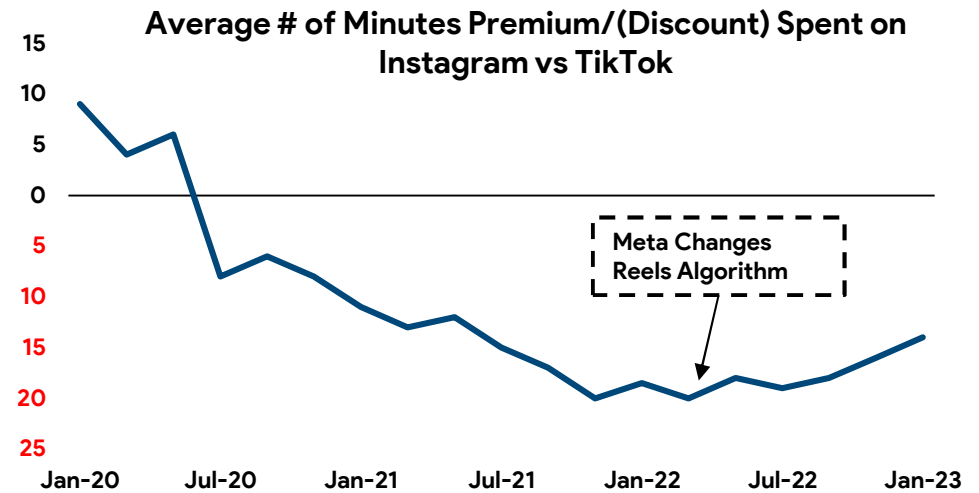
The Reel Deal – Closing the Monetization Gap

Monetization Shifting from Headwind to Tailwind as Reels Gains on TikTok

Reels Will No Longer Depress Combined ARPU¹



And Reels is Clawing Time Back From TikTok

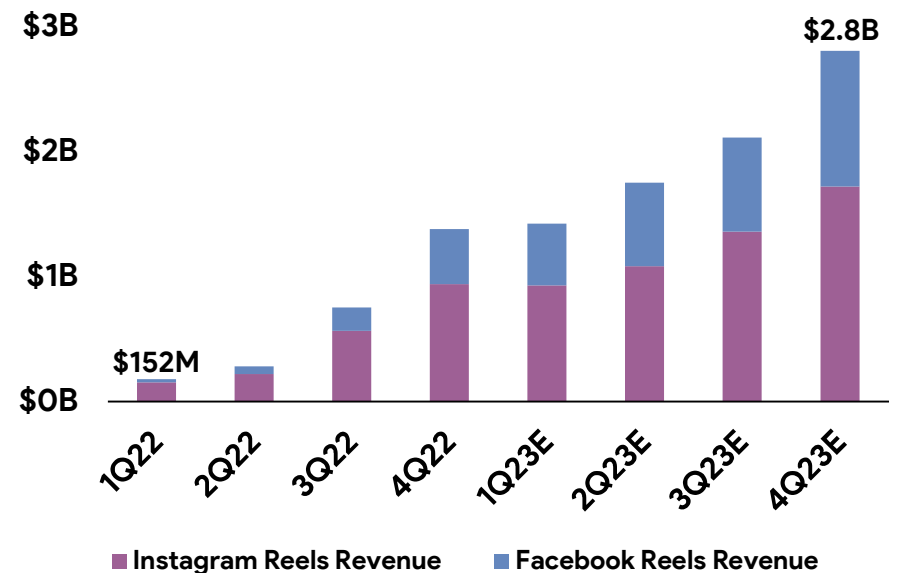


Adding Additional Revenue Growth for Reels

Every 10% Reduction in the Time Spent Gap Between Instagram and TikTok Yields a 1.4% Tailwind to 2023 Total Revenue Growth

'22 Avg Time Spent – Tiktok	58 minutes
'22 Avg Time Spent – Instagram	40 minutes
Tiktok Time Spent Premium %	46%
Tiktok Time Spent Premium – Minutes	18 minutes
What if Instagram Closes the Time Spent Gap by 10%	
(+) YoY Growth in IG Time Spent	4.6%
'22 Instagram Revenue	\$35
'23 Instagram Revenue	\$37
'23 IG Rev Tailwind to Total Revenue Growth	1.4%

Which Will Close the Monetization Gap by EOY 2023²



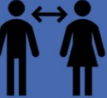





(1) Meta Company Filings, UBS Global Investment Research (2) Meta Company Filings, Morgan Stanley Research

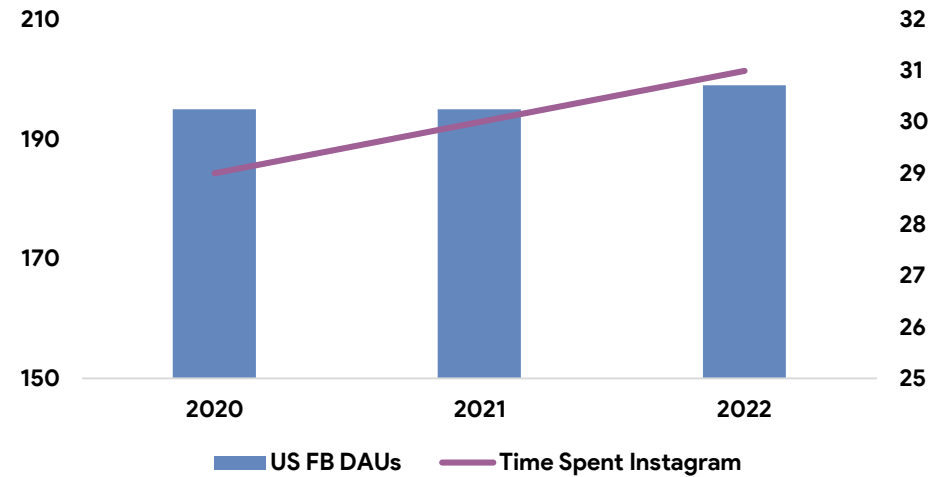
A Misunderstood TikTok Threat

Meta has Not "Lost" to TikTok

TikTok Does Not Threaten Meta's Value Proposition

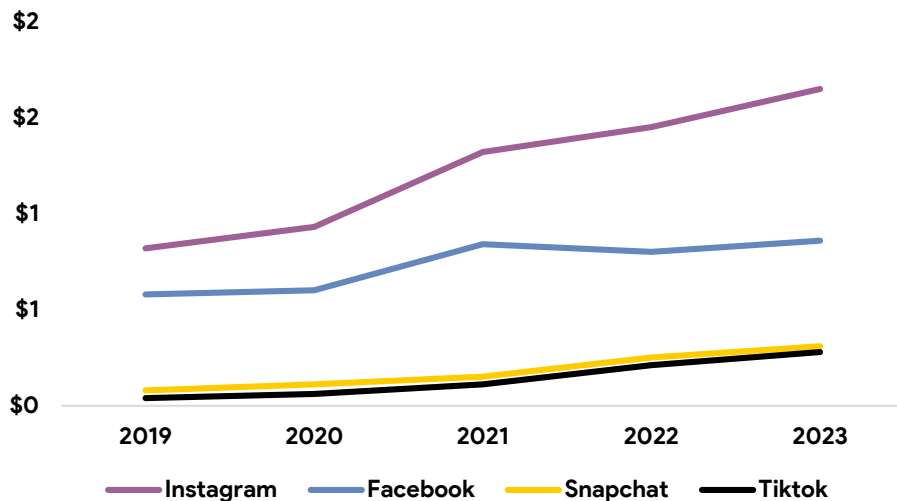
Facebook	TikTok
 <p>Aims to virtualize social connections</p>	 <p>Main goal is entertainment</p>
 <p>Allows you to stay in touch with people</p>	 <p>Focus is not on viral content and influencers</p>
 <p>Integral part of people's social capital</p>	 <p>Little value outside of search and short form content</p>

Meta is not Losing Users to TikTok

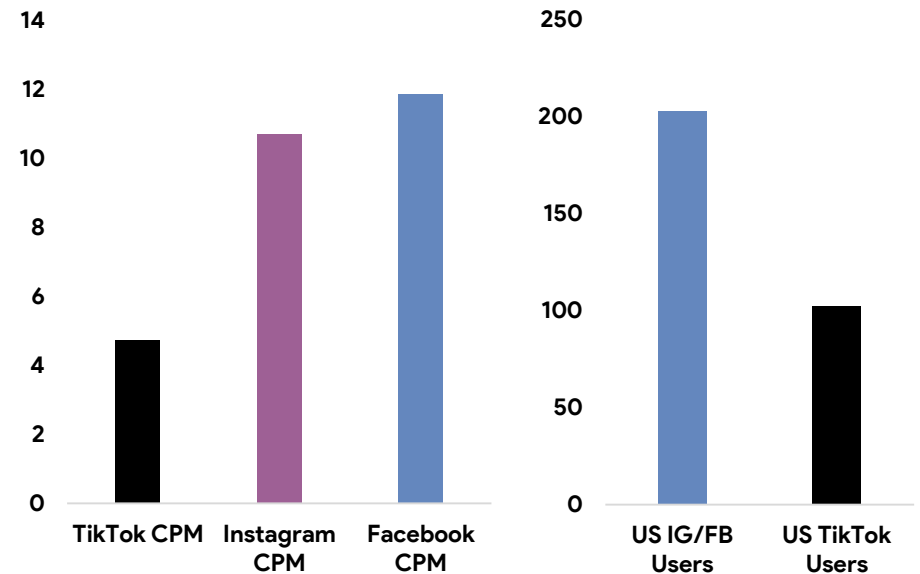


While also Winning the Monetization Battle

US Ad Spend Per Hour



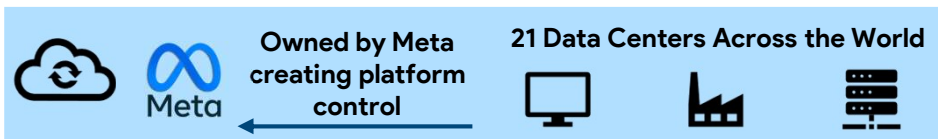
Creating an Outsized Effect in CPMs and Users



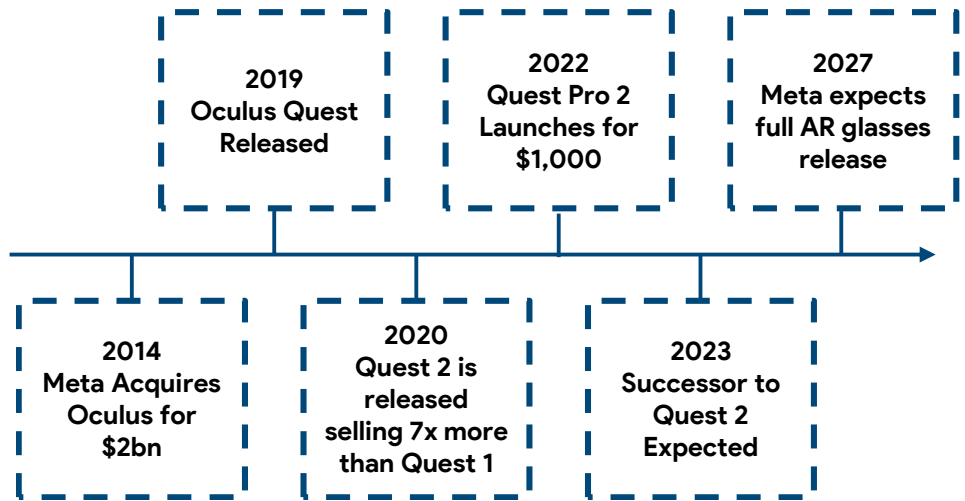
Our View on the Metaverse

A Call Option With Low Risk and a Potentially High Reward

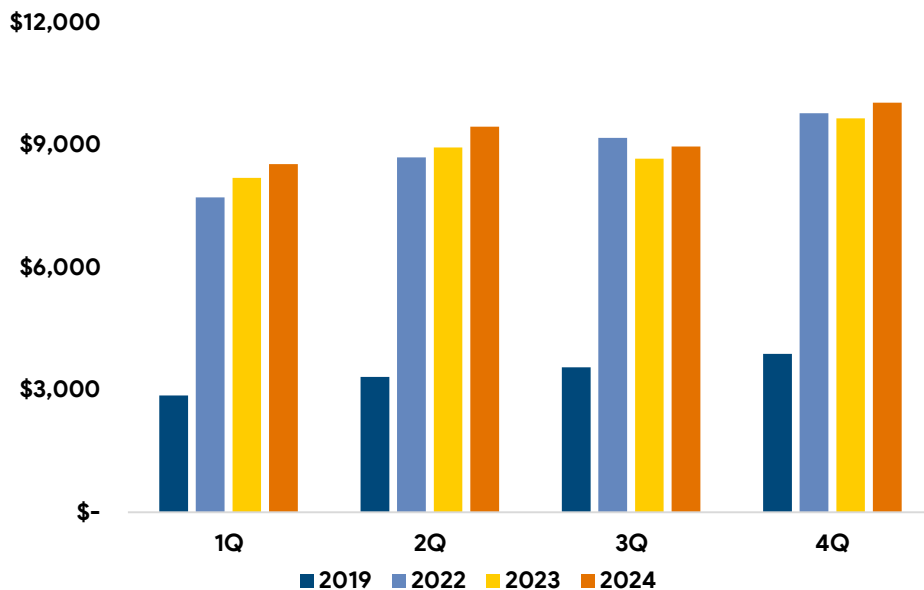
Why Meta Cares So Much



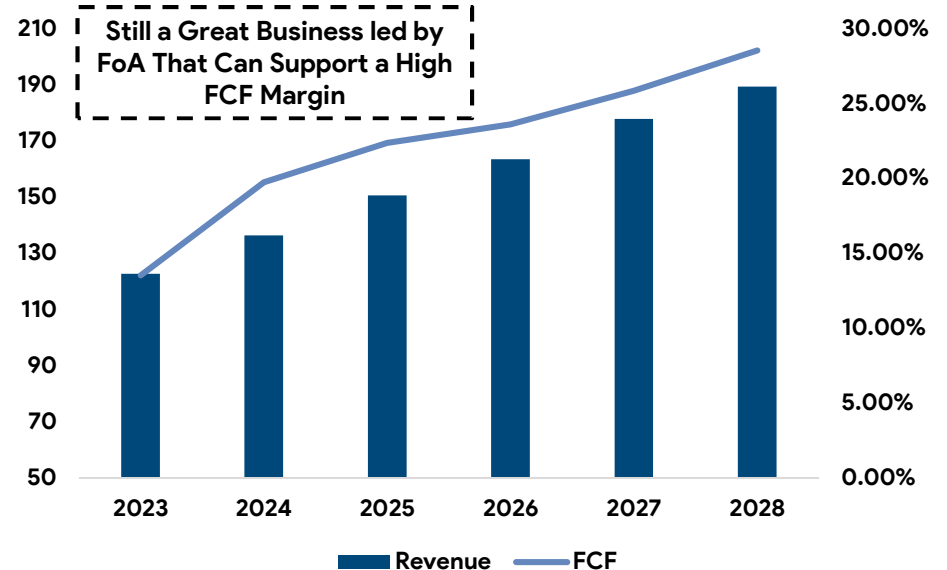
Product Roadmap



With a Bear-Case Approach to Spending¹



Even With the Metaverse Tax²



(1) TME Research (2) Visible Alpha Consensus

Valuation

41% Upside From a Blended DCF Valuation

DCF Walkdown

DCF Valuation	
Discount Rate	10%
LTGR	2.5%
Sum of PV of Cash Flows	238,711
Terminal Value	369,190
Enterprise Value	607,902
(-) Debt	26,591
(+) Cash	40,738
Equity Value	622,049
Shares Outstanding	2,240
Implied Price	\$277.70
Current Price	\$206.01
P/V	0.74
Upside	34.8%

EV/EBITDA Valuation	
2025 Implied EBITDA	\$ 66,587
Implied EV/EBITDA Multiple	10.0
Enterprise Value	\$ 665,868.04
(-) Debt	26,591
(+) Cash	40,738
Equity Value	\$ 680,015.04
Shares Outstanding	2,240
Implied Price	\$303.58
Current Price	\$206.01
V/P	0.68
Upside	47.4%

Product Roadmap

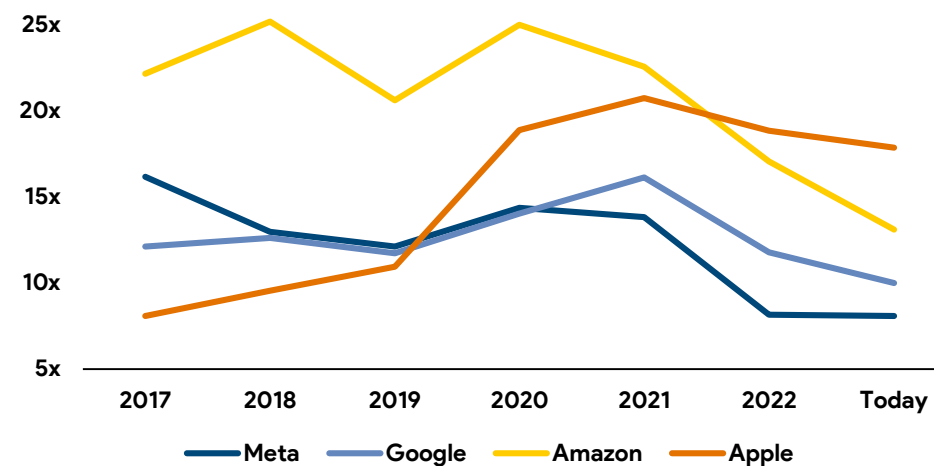
Blended Valuation	
Perpetuity Weighting	50%
Value From Perpetuity	\$138.85
Multiple Valuation Weighting	50%
Value From Multiple Valuation	\$151.79
Implied Price	\$290.64
Current Price	\$206.01
V/P	1.41
Upside	41.1%

Recommendation: Buy
Price Target: \$285.46
Upside: 41%
Weight: 2.5%

Value From Perpetuity Method

30%	40%	50%	60%	70%
43.60%	42.30%	41.10%	39.80%	38.60%

Historical Multiple Range and Comps



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8. TikTok Threat
9. Our View on the Metaverse
10. Valuation

Appendix

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2. TikTok Ban – 2
3. WhatsApp Monetization
4. D&A Variance Explained
5. Comps and Multiple Analysis
6. User Metrics
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9. Abandoning Reality Labs
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Appendix - TikTok Ban (1/2)

Tik Tok faces legislative headwinds

Current Bans

- **India:** banned the app in 2020
- **US:** banned on government phones
- **UK:** banned on government phones
- **Canada:** banned on government phones
- **EU:** banned from all employee devices
- **Afghanistan:** banned nationally

The Data Act

- Proposes an amendment to the IEEPA to ban the import/export of "sensitive personal data" from China
- The bill uses the Treasury Department's recent regulations on defining "sensitive data" under FIRRMA to define "sensitive personal data".
- The proposed amendment raises complicated domestic and foreign policy questions and could impact national security in not just a narrow, tech-focused sense.

Restrict Act

- Proposing to give the Biden administration new power to restrict or ban technology from China and five other countries deemed U.S. adversaries
- The bill seeks to establish an "overarching framework to evaluate foreign technology threats."
- Allows for a spectrum of responses to security risks and not just prohibiting covered transactions.

Surfacing views on Tik Tok's operations

Legislators

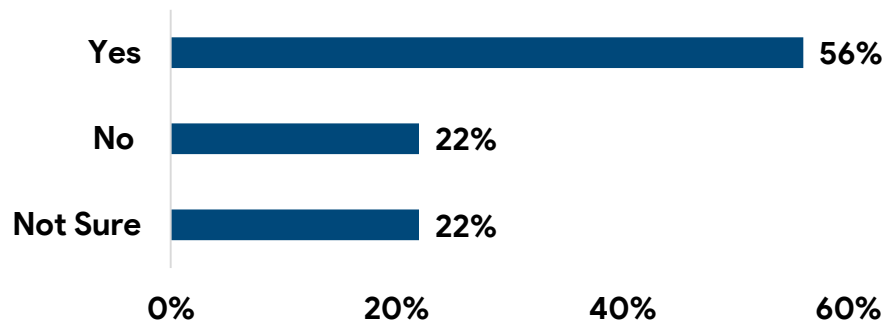
**Your platform should be banned”
- Rep. Cathy McMorris Rodgers**

"It's very concerning that the CEO of TikTok can't be honest and admit what we already know to be true — China has access to TikTok user data.“ -House Speaker Kevin McCarthy

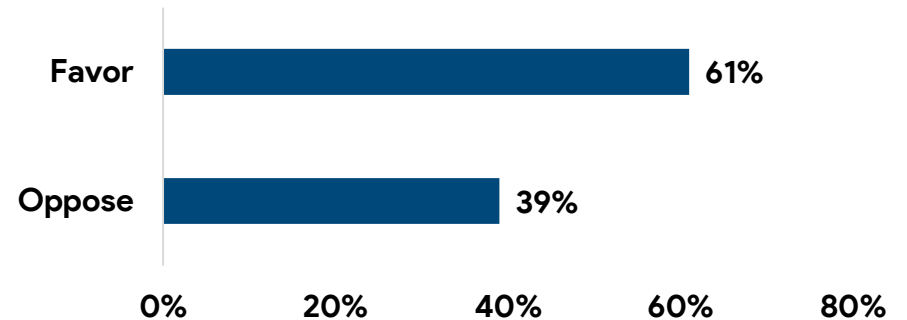
TikTok Ban – Polling Data

The Majority of Americans Want to Ban TikTok

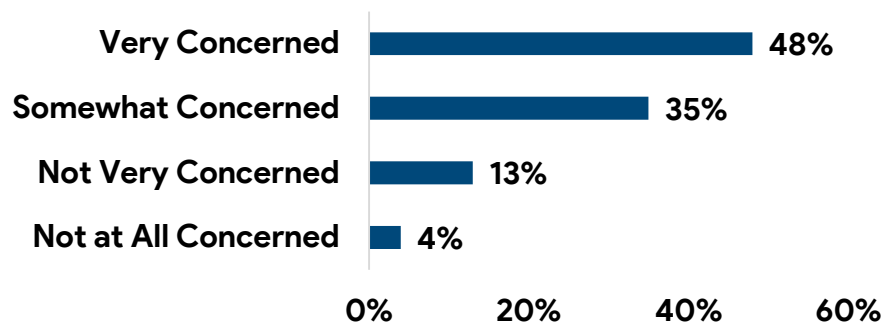
Are TikTok's Ties to China a National Security Risk?



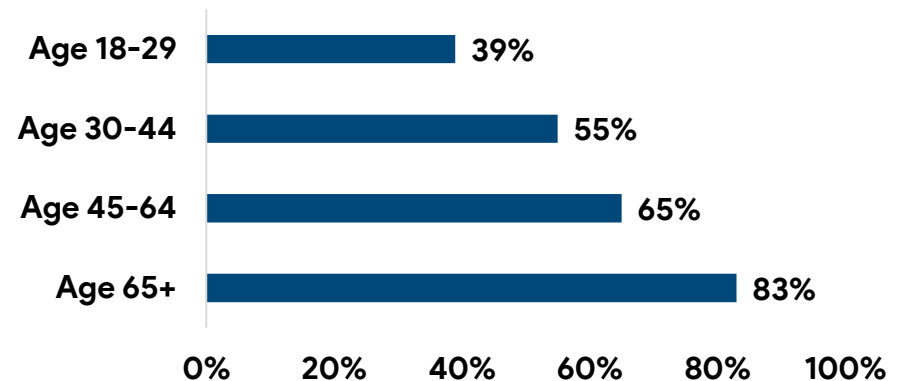
Should the U.S. Government Ban TikTok?



Foreign Influence on U.S via Social Media?



Favor a Ban on TikTok?

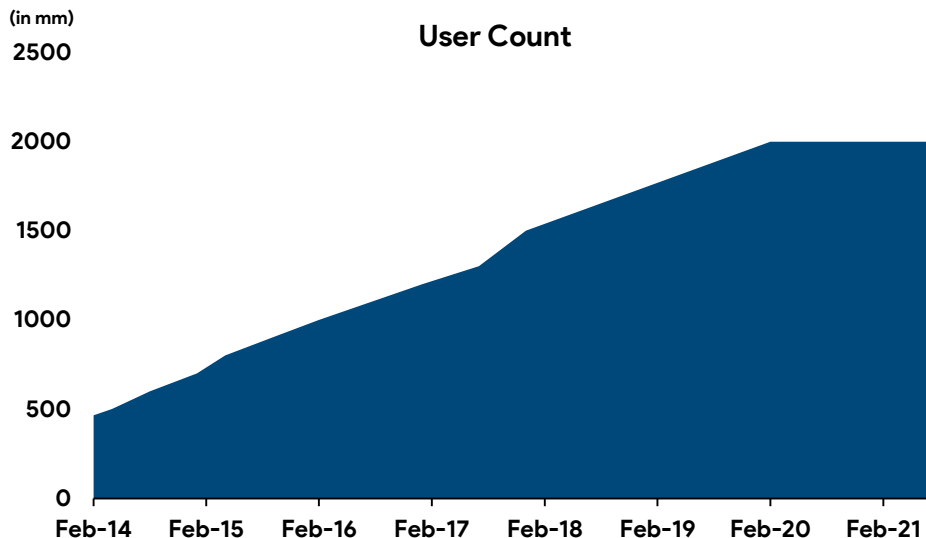


(1) CBS News / YouGov, March 20-22, 2023

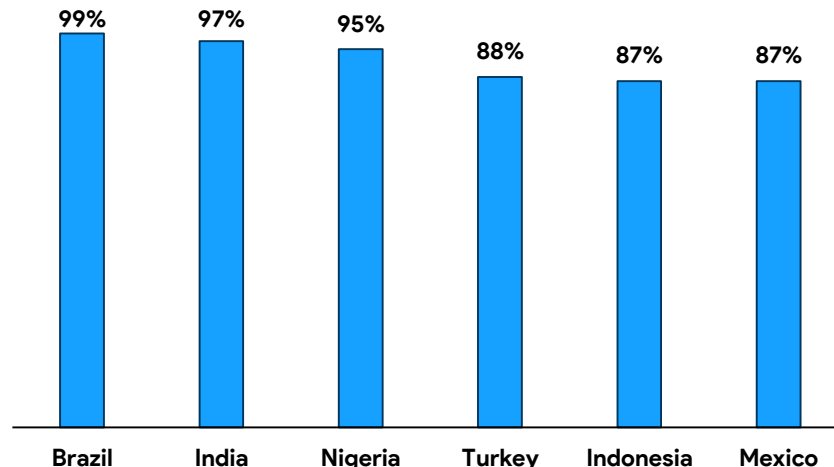
Appendix

WhatsApp is massively under-monetized

Majority of World uses WhatsApp



WhatsApp Penetration in Major Markets



Current Under-Monetization



\$2.3 billion
users
\$906 million
in revenue
ARPU: \$0.39



\$1.3 billion
users
\$19 billion
in revenue
ARPU: \$14.62

Monetization Path Forward

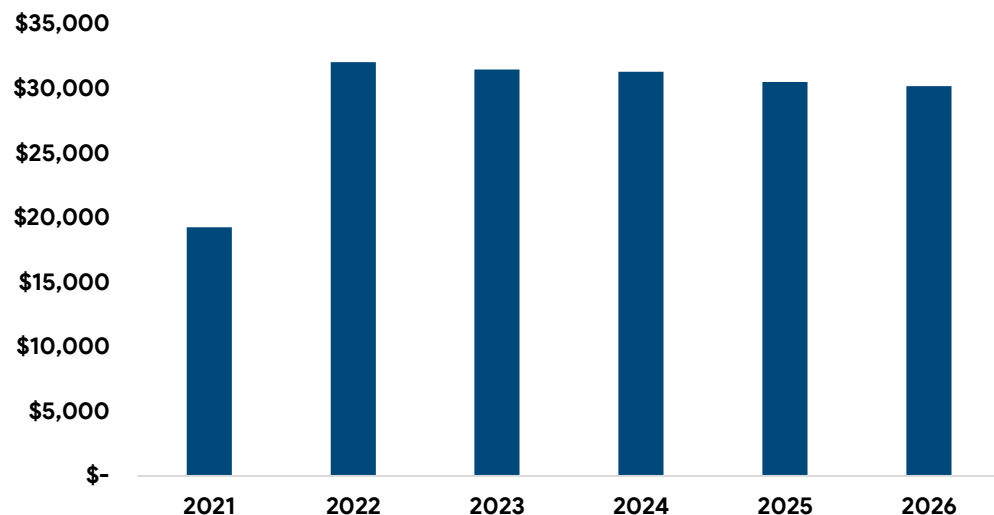
While it is unlikely that Meta will introduce direct ads to WhatsApp, they could easily:

- 1 "Ads that click to WhatsApp" – Customers can move from an ad on FB to a WA with the seller in one click
- 2 Add premium subscription model
- 3 WeChat-like: In-app end-to-end solutions (Already introduced in Brazil and India)

Appendix

D&A Variance Explanation

Capex Spend Leading Up



2026 D&A Walkthrough

Vast Majority of Current Capex Focuses on Networking Component of Data Centers

Assuming Managements 5yr timeline on a conservative estimate of half of capex gives us 15bn of D&A in 2026

Number Would be before any other intangible amortization, buildings, or shell expenses as well

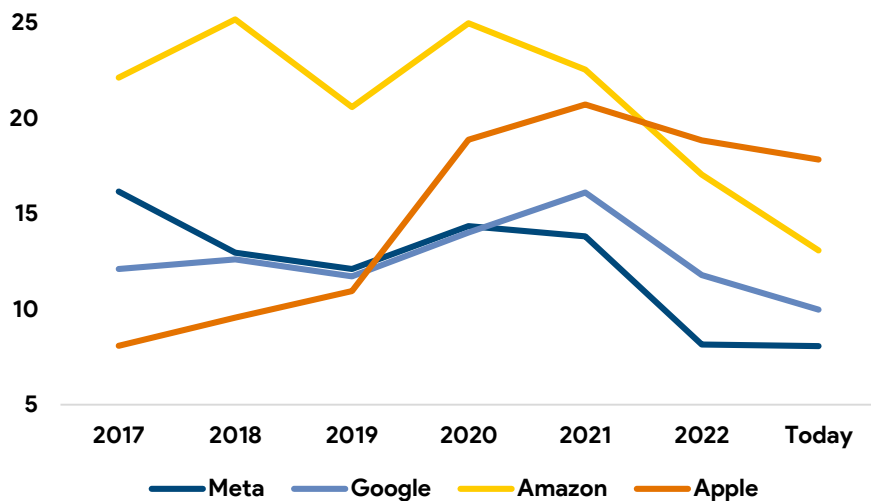
Waterfall Explanation

	2021	2022	2023	2024	2025	2026			
Capex	\$ 19,240	\$ 32,040	\$ 31,473	\$ 31,316	\$ 30,510	\$ 30,200			
	9,620	16,020	15,737	15,658	15,255	15,100			
2021	1,924	1,924	1,924	1,924	1,924				
2022		3,204	3,204	3,204	3,204	3,204			
2023			3,147	3,147	3,147	3,147	3,147		
2024				3,132	3,132	3,132	3,132	3,132	
2025					3,051	3,051	3,051	3,051	3,051
2026						3,020	3,020	3,020	3,020
	1,924	5,128	8,275	11,407	14,458	15,554			

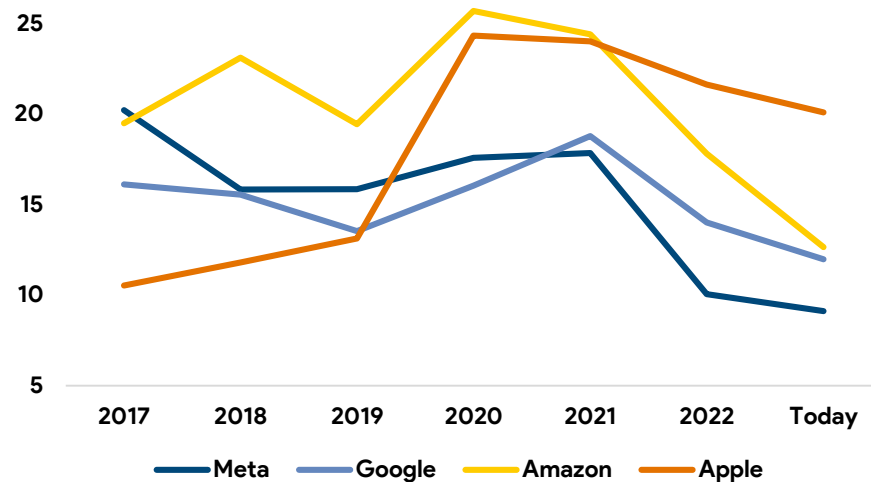
Appendix

Comps and Multiple Justification

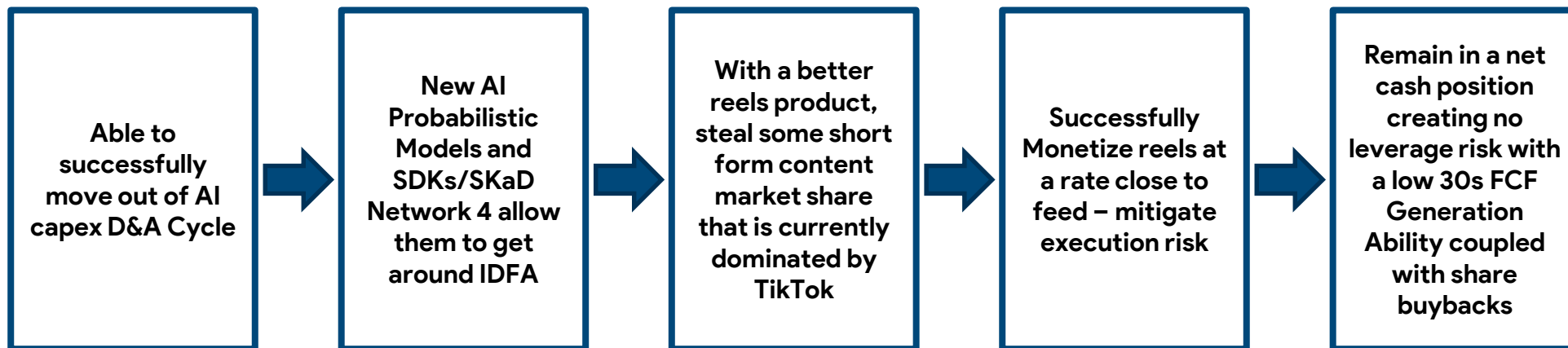
Historical EV/NTM EBITDA



Historical EV/NTM FCF



10x Multiple Justification

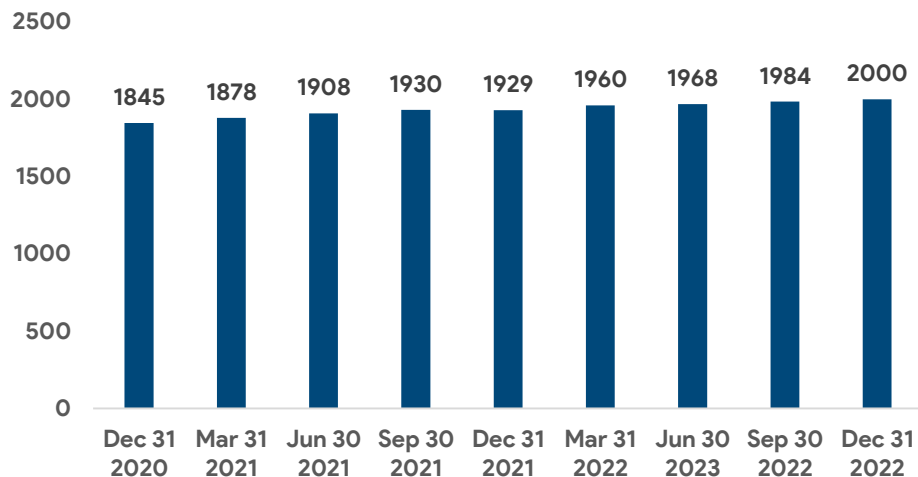


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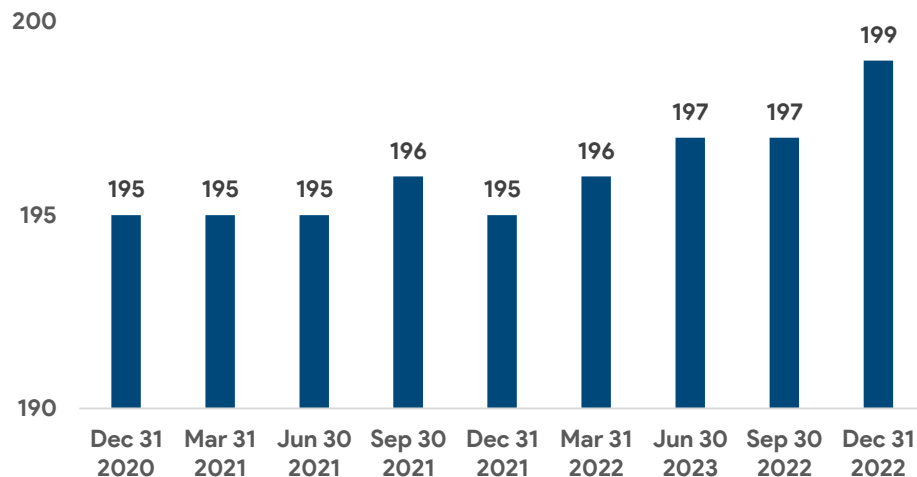
User Metrics

Expense outlook 12% vs 3Q earnings

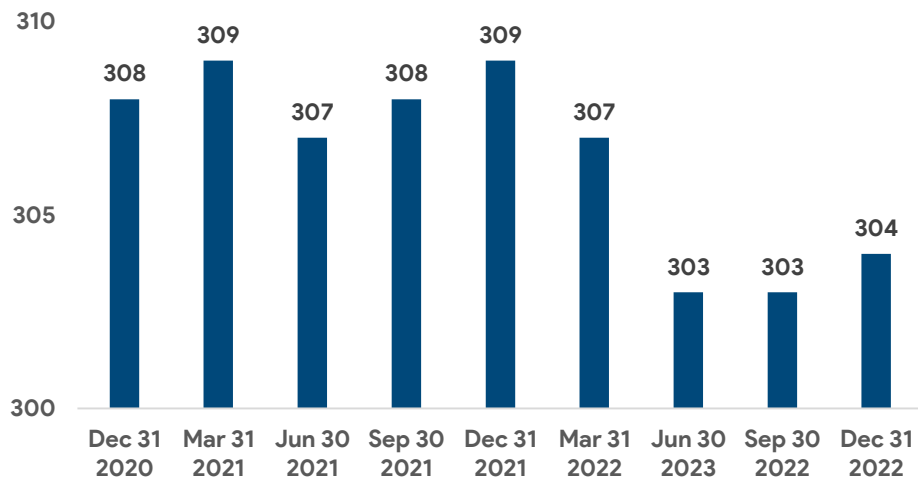
Daily Active Users Worldwide (in millions)



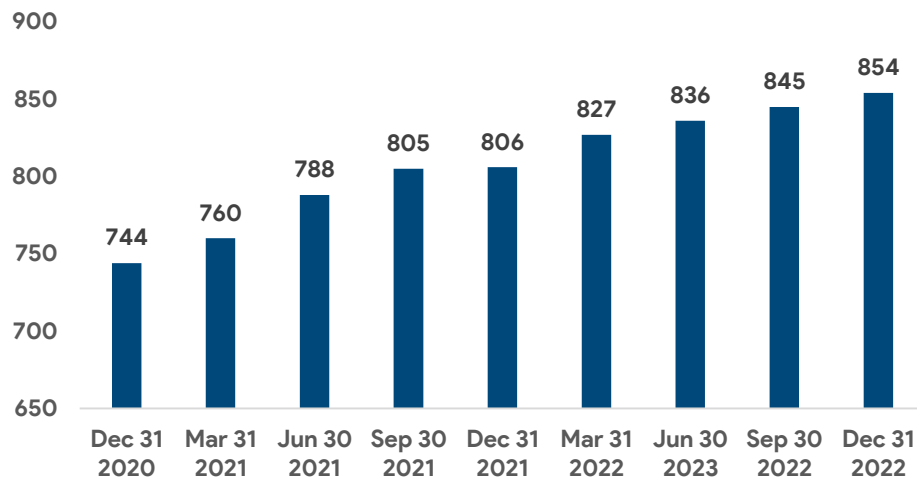
Daily active users US & Canada (in millions)



Daily active users Europe (in millions)



Daily active users Asia-Pacific (in millions)



Appendix

Ad Campaigns

How Ad Campaigns on FB Work

What's your marketing objective? [Help: Choosing an Objective](#)

Awareness	Consideration	Conversion
Brand awareness	Traffic	Conversions
Reach	Engagement	Catalog sales
	App installs	Store visits
	Video views	
	Lead generation	
	Messages	



Audience
Define who you want to see your ads. [Learn more.](#)

Create New Use a Saved Audience ▼

Custom Audiences

Exclude | Create New ▼

Locations

United States

| Type to add more locations

Add Locations in Bulk

Age

Gender

Languages



Budget & Schedule
Define how much you'd like to spend, and when you'd like your ads to appear.

Auction Predictable Reach and Frequency

Budget
\$11.00 USD

Actual amount spent daily may vary.

Schedule Run my ad set continuously starting today
 Set a start and end date

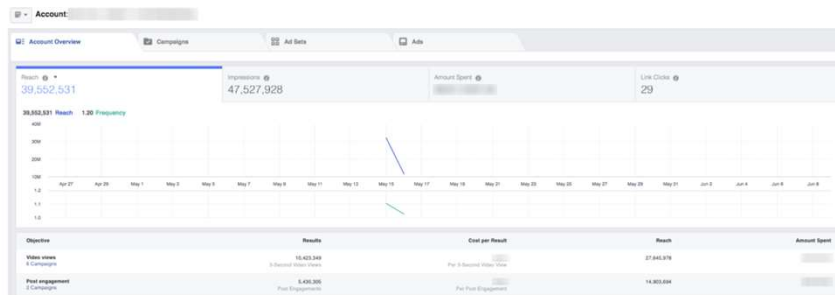
You'll spend no more than \$77.00 per week.

[Show Advanced Options](#) ▼



Placements
Show your ads to the right people in the right places.

- Automatic Placements (Recommended)**
Your ads will automatically be shown to your audience in the places they're likely to perform best. For this objective, placements may include Facebook, Instagram and Audience Network. [Learn more.](#)
- Edit Placements**
Removing placements may reduce the number of people you reach and may make it less likely that you'll meet your goals. [Learn more.](#)

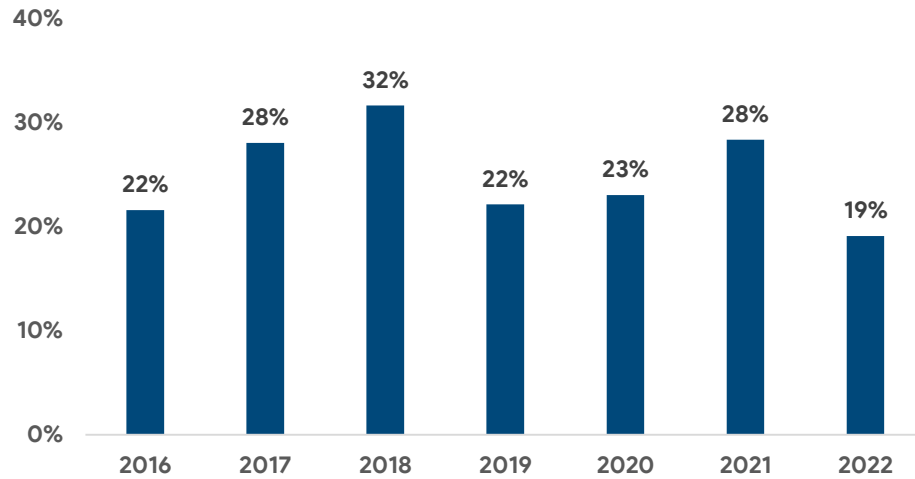


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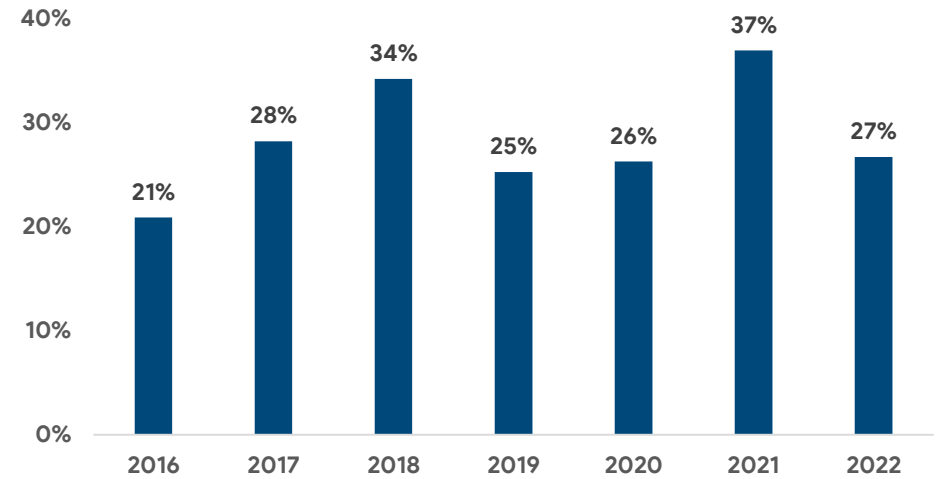
Return Metrics

Expense outlook 12% vs 3Q earnings

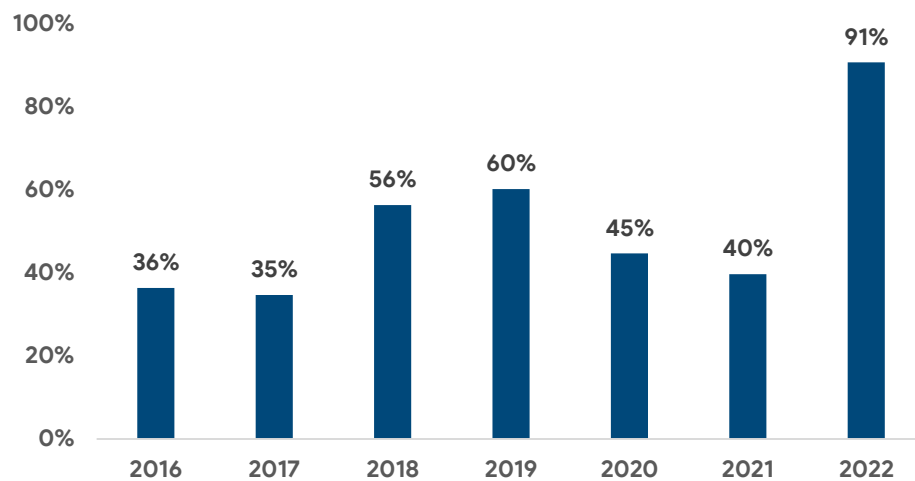
Meta ROA



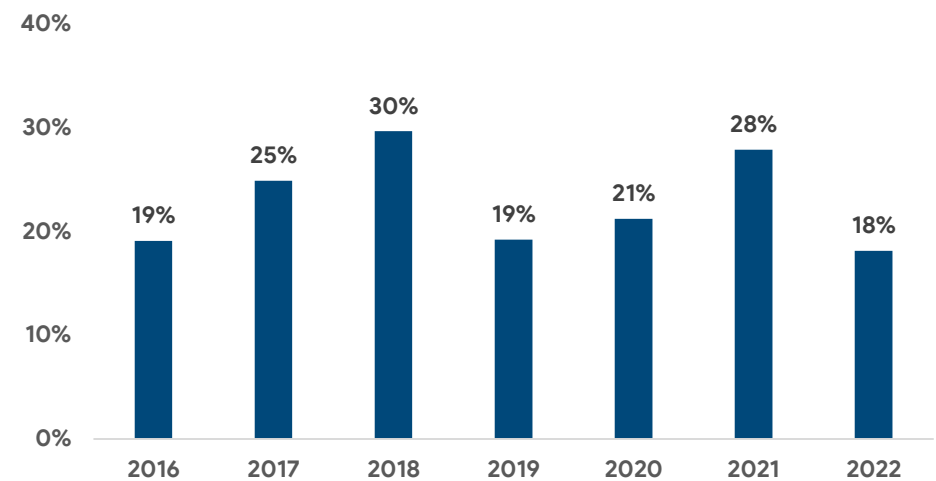
Meta ROE



Meta ROIC



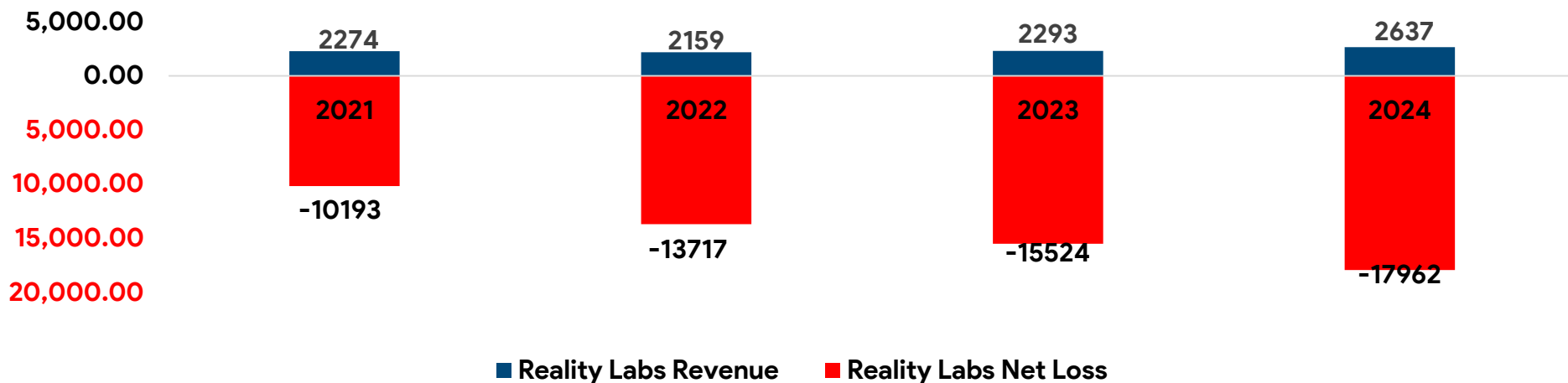
Meta ROTA



Appendix

Call Option #1 – Abandoning Reality Labs

The Metaverse is Not Accretive to Shareholder Value...



Is Meta Pivoting Away from the Metaverse?



“Our single largest investment is in advancing AI and building it into every one of our products” – Mark Zuckerberg, 03/12/23

Mentions of “Metaverse” on Meta’s 4Q 2021 Earnings Call: 15
Mention of “Efficiency” on Meta’s 4Q 2023 Earnings Call: 25

Appendix

Investment in AI buildout cost | In-app ads

Meta CapEx (\$B)

