Meta
Team 7
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11/18/24

Executive Summary

Investment Strategy

- Fundamental analysis to identify an undervalued Tech company with strong growth potential (Artificial Intelligence and Virtual Reality).

Investment Pitch

- Buy 11 shares of META.

Target Price vs Analysis Price

- 652.17 (Target) − 554.08 (analysis) = $97.37 (+17.6%)

Rationale

- Meta's dominant market position in the social networking sector gives it stable and consistent revenue growth, additionally, the successive foray into AI and VR makes it a compelling buy.

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Company Overview

Founding

- Meta was founded in 2004 by Mark Zuckerberg and his team as *TheFacebook* at Harvard University. It quickly expanded beyond college networks, becoming a global social media platform. In 2012, it rebranded as Facebook, and in 2021, became Meta to focus on building the metaverse. Headquartered in Menlo Park, California, Meta leads in social media and virtual reality innovation.

Business model

- Meta's business model centers on digital advertising, generating revenue by delivering targeted ads across its platforms like Facebook and Instagram. It also earns through hardware sales, particularly with products like the Oculus VR headset, and virtual goods in its metaverse projects. Additionally, Meta is exploring subscription services and premium features for businesses and users. Despite diversifying, its core revenue remains driven by user data and ad monetization.

Market Position

- Meta has over **3.8 billion monthly active users** across its platforms, making it one of the largest digital ecosystems globally. In 2023, it generated around **$131 billion in advertising revenue**, holding **20% of the global digital ad market**. Facebook remains the largest social media platform with **2.96 billion active users**. Despite facing growing competition, Meta continues to lead in both social media and digital marketing.

Global Reach

- Meta has a vast global reach, with 2.96 **billion monthly active users** on Facebook and more than **2 billion** on Instagram and WhatsApp. Its platforms are available in over **100 languages**, making them accessible worldwide. Meta has significant user bases in North America, Europe, and emerging markets in Asia, Latin America, and Africa. This global footprint solidifies Meta's dominance in social media and digital communication.

Investment Thesis

Company Name:	Meta Platform Inc		
Ticker:	Meta	**Analysis Date:**	11/17/24
Sector:	Communication	**Current Price:**	554.08
Industry:	Technology	**Target Price:**	651.67
Shares Out.:	2180 Million	**Monthly Volume:**	~17 million
Market Cap.:	1399.3 Billion	**Beta (5y monthly):**	1.21

Investment Thesis: BUY 11 Shares of META

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Annual Performance History

%	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
META	42.77	34.15	9.93	53.38	-25.71	56.57	33.09	23.13	-64.22	194.13	63.35
SP TECH	17.85	5.49	15.02	34.25	-1.66	49.86	43.61	34.74	-27.23	56.02	17.91
SPX	11.39	-0.73	9.54	19.42	-6.24	28.88	16.26	26.89	-19.44	24.23	24.29

Yahoo Finance

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5Y Total Return with S&P and S&P TECH Sector Done

META Comp Comparison Done

10Y Total Return with S&P and S&P TECH Sector Done

META Comp Comparison

	META	Appl	MSFT	GOOGL	NETFLIX	Uber	Pinterest
Market Value	1399.3B	3401.1B	3085.5B	2119.8B	352.2B	154.2B	19.1B
Enterprise Value	879.01B	3405.9B	3344.9B	1658.5B	220.5B	135.2B	22.8B
EV/EBITDA	16.87	24.61	21.74	16.61	36.48	38.95	124.67
Revenue	134.9B	391.0B	245.1B	307.4B	33.7B	37.3B	3.1B
FCF	43.8B	108.8B	74.1B	69.5B	6.9B	3.4B	0.6B
ROA	24.43%	28.98%	18.81%	23.35%	15.55%	7.11%	6.35%
ROIC	28.69%	52.07%	25.48%	29.33%	21.15%	3.57%	3.49%
Total D/E	24.76	199.42	38.52	10.19	82.44	92.08	6.35

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Comp Comparisions

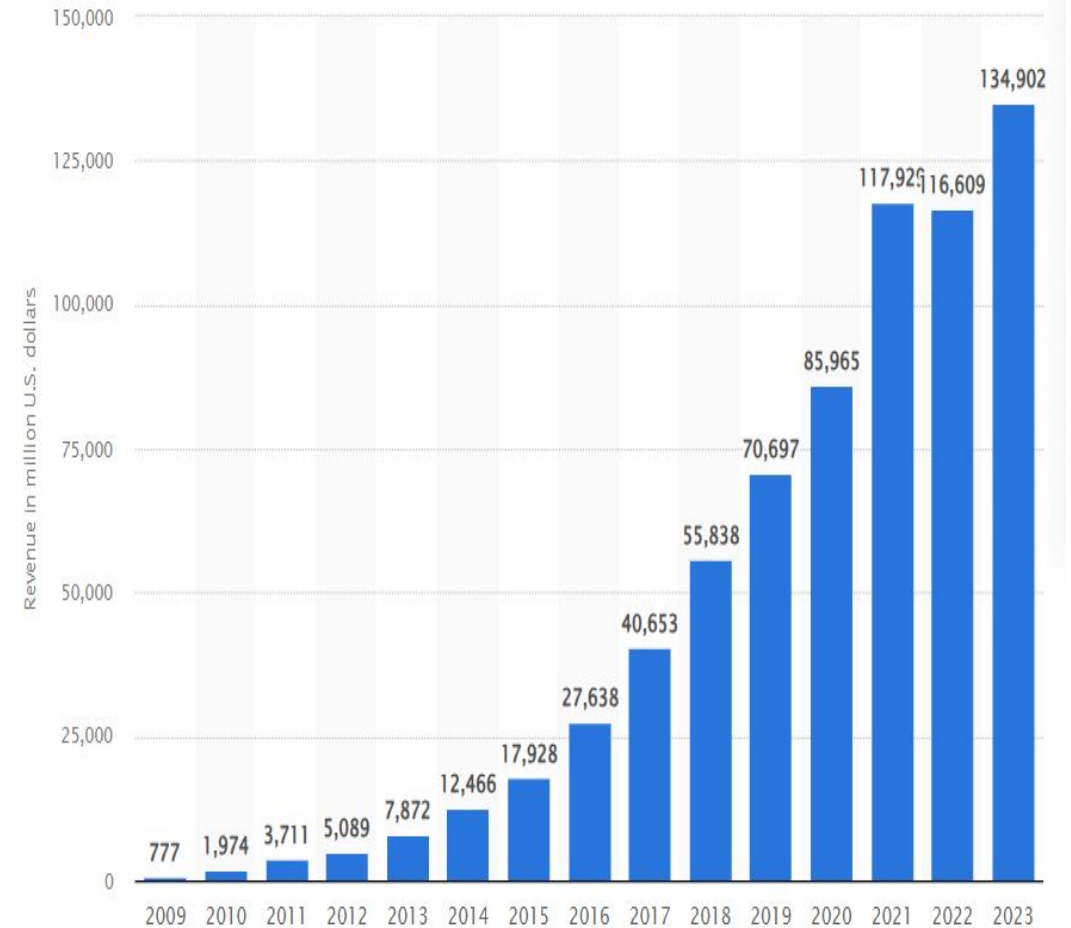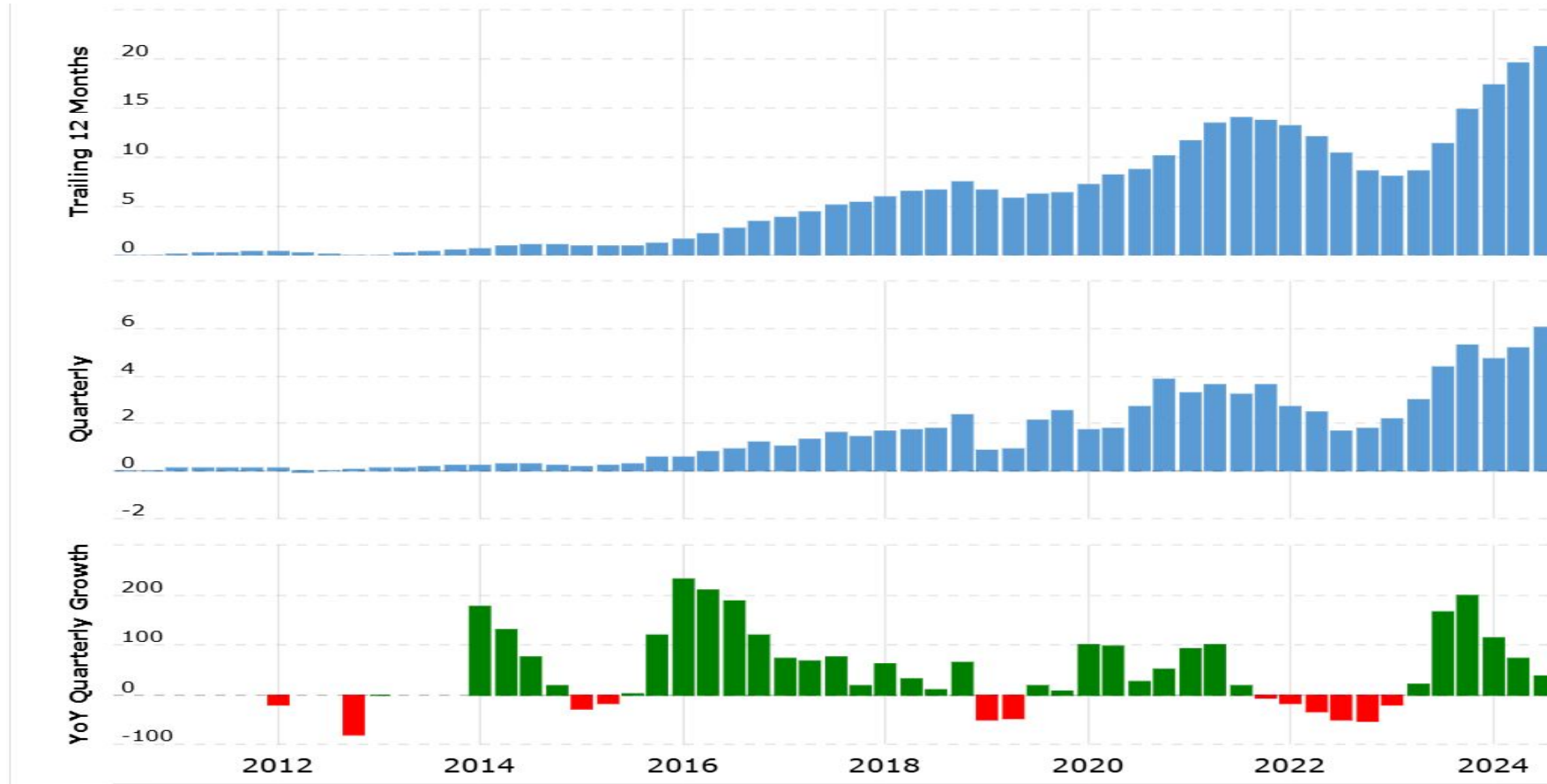|	META	AAPL	MSFT	GOOGL	NETFLIX	UBER	PINTEREST
OPERATING MARGINS	34.66	31.51	41.77	27.42	20.62	2.98	-4.11
Gross MARGINS	80.76	44.13	68.92	56.63	41.54	39.76	77.46
BETA	1.21	1.04	1.03	1.12	1.20	1.31	1.34

Industry Analysis

Social Media & Digital Advertising

Meta has 21% market share In US and 75% all over the world

- **Market Leadership**: Facebook, Instagram, WhatsApp (2B+ users each) drive Meta's dominance.
- **Revenue Stream**: 97% of revenue from targeted digital ads. Meta's ad platform continues to outperform competitors.
- **Competition**: Facing growing challenges from TikTok, YouTube (Google), and Snapchat, especially in short-form video.
- **Market Potential**: The AR/VR market is forecast to grow to $300B by 2025, and $3T by 2032 but mass adoption remains slow.
- **Strategic Risk**: Long-term focus with uncertain short-term returns and consumer adoption.

Bar chart: Revenue in million U.S. dollars by year
- 2009: 777
- 2010: 1,974
- 2011: 3,711
- 2012: 5,089
- 2013: 7,872
- 2014: 12,466
- 2015: 17,928
- 2016: 27,638
- 2017: 40,653
- 2018: 55,838
- 2019: 70,697
- 2020: 85,965
- 2021: 117,929
- 2022: 116,609
- 2023: 134,902

Earnings Analysis

Industry Analysis

Industry Analysis

Acquisition History
- Instagram-: (2012)1B
- WhatsApp-: (2014) $19B
- Oculus VR-: (2014) $2B
- Giphy-: (2020) $400M

Future: Investment in Artificial Intelligence and Augmented & Virtual Reality to drive the growth

Over $50 Billion Cash reserve for acquisition and investments in innovative technologies (R&D)

Meta to let US national security agencies and defense contractors use Llama AI

Company typically prohibits its use for 'military, warfare, nuclear industries or applications, [and] espionage'

A Meta store in Burlingame, California, on 11 October 2024. Photograph: Bloomberg/Getty Images

SWOT Analysis

Strengths

- **Strong Brand**
- **Diversified Portfolio**
- **Global Presence**
- **Strong Advertising Business**

Weaknesses

- **Dependence on the Advertising**
- **Policy**
- **Macroeconomic Challenges**

Opportunities

- **Generate Diversified Revenue Sources**
- **Increasing Application Integration**
- **Acquisition**

Threats

- **Increasing Competition:- Tiktok,**
- **Economic Slowdown**
- **Data Breach**

STRENGTHS

- **Strong Brand-**Meta's globally recognized platforms (Facebook, Instagram, and WhatsApp) ensure consistent user engagement and brand loyalty.

- **Diversified Portfolio-**Its wide range of products and services caters to both social networking and virtual reality markets.(2.1b)

- **Global Presence-** Meta connects over 4 billion users worldwide, driving its influence in various regions.

- **Strong Advertising Business-**With advanced AI-driven tools, Meta dominates the digital advertising space, accounting for the majority of its revenue.

Weakness

Dependence on the Advertising-About 97% of its annual revenue comes from advertising. In 2023, out of $134.9 billion annual revenue, $131 billion was its advertising revenue.

Policy:- Change in IOS or android AD policy that could affect ads from being seen through the app.

Macroeconomic Challenges:-Inflation and economic slowdowns might reduce advertising spending, negatively impacting Meta's revenue streams.

Opportunities

- **Generate Diversified Revenue Sources-**Expand beyond advertising through AR/VR, e-commerce, and subscription models.
- **Increasing Application Integration-**Enhances user experience by unifying platforms for seamless connectivity and engagement.
- **Acquisition-**Strengthen market position and technology portfolio by acquiring innovative startups in AI, AR/VR, and messaging

Threats

- **Increasing Competition**:- Meta faces intense competition from platforms like TikTok, Snapchat, YouTube, and emerging social media apps, which are capturing younger demographics and ad revenue share. This could limit Meta's user growth and market dominance.
- **Economic Slowdowns**: Recessions or reduced consumer spending can lead to cuts in advertising budgets, Meta's primary revenue source.
- **Data Breach**- Facebook has experienced many instances where its data was breached, affecting millions of its users. For example, in December 2019, during a major data breach over 267 million Facebook users' personal information (names, user IDs, phone numbers) was exposed to the dark web.

Valuation Assumptions- DONE

Valuation Date:	11/17/2024	**N Forecasted Years:**	5
Revenue Growth Method:	CAGR	**Exit EV/EBITDA Multiple:**	14.7x
Rev. Growth Rate 2024E:	13.8%	**WACC Calc. Method:**	Bloomberg
Rev. Growth Rate 2025E:	13.8%	**WACC:** **Cost of Equity:**	10.33% 10.53%
Rev. Growth Rate 2026E+:	13.8%	**N Comparable Peers:**	7

Valuation Model Outcomes-DONE

	Estimated Value Per Share	Model Weights
Precedent Transaction	$ 879.02	31%
Comparable Company	$ 903.37	31%
Levered DCF	$ 268.00	23%
Unlevered DCF	$ 253.26	15%
Dividend Discount	NA	0%

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Valuation Target Price-DONE

Current Stock Price versus Scenarios

	Current	Bear	Base	Bull
Stock Price	554.08	496.10	652.17	689.87
Upside (Downside)		(57.98)	98.09	135.79
Upside (Downside) %		-10.46%	17.70%	24.51%
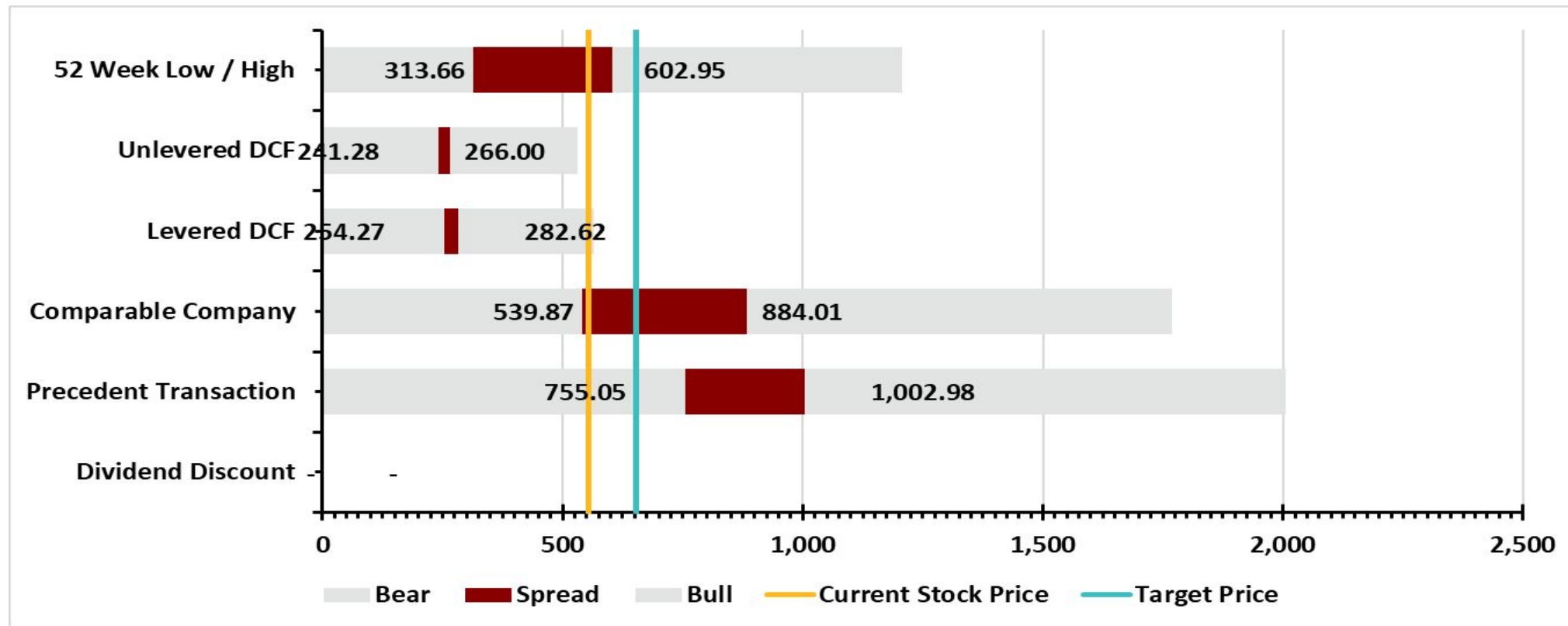
Buys:- 84.8%

Holds:-11.4%

Sells:- 3.8%

Effect on the Portfolio

Portfolio Breakdown

- CBRE: $13,023.00
- PEP: $7,931.00
- GDDY: $5,487.60
- META: $6,095.00

Sector Weights W/O Cash

- Real Estate: 40%
- Information Technology: 36%
- Consumer Staples: 24%
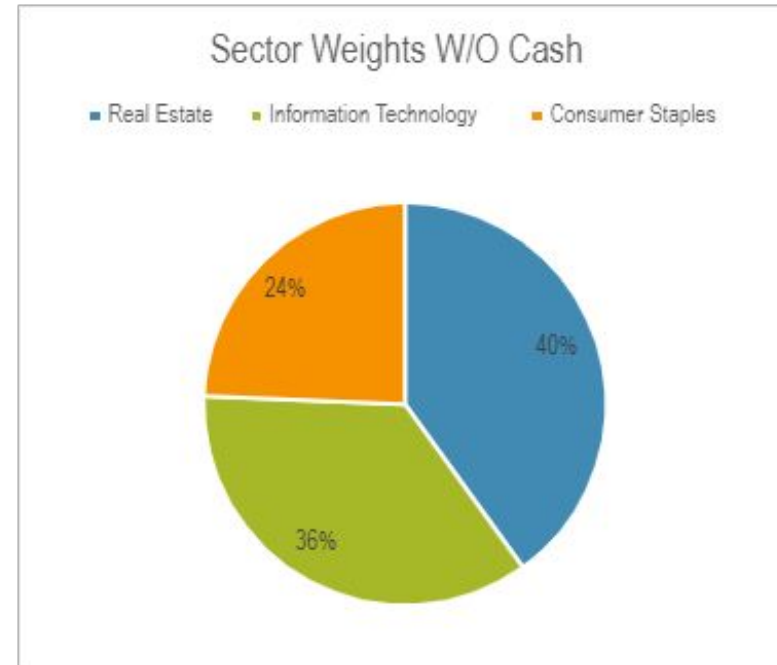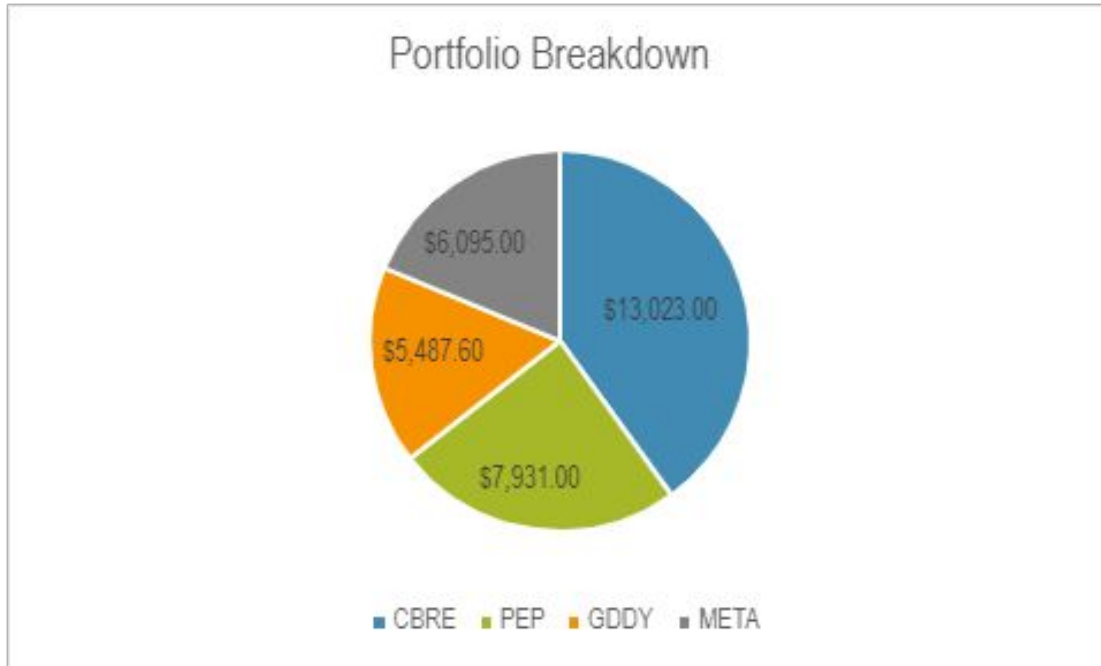
Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing	6.15%	0.75%	0.0289	2.18	-	-
META	17.16%	12.05%	1.21	2.59	-	-
Adjusted	6.22%	0.79%	0.0365	2.27	-	-

Conclusion

Investment Thesis: BUY 11 Shares of META (~$6094)

Summary & Recommendation

Strategy Merits

- **Performance**

  [Summarize return highlights and how performance compares to benchmark]
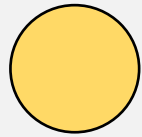
- **Risk**

  [Considerations that support strategy's risk profile]
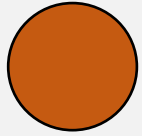
- **Effects on Portfolio**

  [Impact on portfolio metrics]

Action Plan
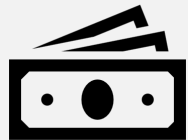
- **Recommendation: Yes or No**

  [If Yes, clearly state proposal (e.g., "Allocate $50k to purchase x amount of xyz shares); include rebalancing details if applicable]

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Overview of Valuation Models

FCF Firm - Perpetuity

FCF Firm - EBITDA

FCF Equity - Perpetuity

FCF Equity - EBITDA

Comparable Company

Dividend Discount

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Discounted FCFF

Free Cash Flow to the Firm (FCFF):

Also called **Unlevered Free Cash Flow**, is a multi-step calculation used in a Discounted Cash Flow analysis to estimate Enterprise Value (total firm value). FCFF is a hypothetical figure, an estimate of what it would be if the firm was to have no debt.

Corporate Finance Institute: Cash Flow Guide

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Discounted FCFE

Free Cash Flow to Equity (FCFE):

> Also called **Levered Free Cash Flow**, is used in financial modeling to estimate the equity value of a firm. It only represents the cash flow available to equity investors (interest to debt holders has already been paid).

[Corporate Finance Institute: Cash Flow Guide](#)

Comparable Company Analysis

Comparable Company Analysis:

"**Comps**" for short, is a valuation methodology that looks at ratios of similar public companies and uses them to derive the value of another business. Comps is a relative form of valuation, unlike a Discounted Cash Flow (DCF) analysis, which is an intrinsic form of valuation.

[Corporate Finance Institute: Comparable Company Analysis](#)

Dividend Discount Model

Dividend Discount Model (DDM):

A quantitative method of valuing a company's stock price based on the assumption that the current fair price of a stock equals the sum of all the company's future dividends discounted back to their present value.

Corporate Finance Institute: Dividend Discount Model

Key Terms

Performance Metrics

- **Alpha (α)**: Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.

- **Sharpe Ratio**: Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.

- **Sortino Ratio**: Similar to Sharpe, but only considers downside risk, ignoring positive volatility.

- **Information Ratio**: Measures returns above a benchmark relative to the tracking error.

- **Treynor Ratio**: Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap**: Total value of a company's shares (Share Price × Total Shares Outstanding).

- **P/E Ratio**: Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.

- **Rebalance**: Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.

- **Idiosyncratic Risk**: Risk unique to a specific asset, not due to market movements (e.g., company-specific events).

- **Systematic Risk**: Market-wide risk that affects all securities (e.g., interest rate changes).

- **Standard Deviation (σ)**: Measures volatility by showing how much returns deviate from the average.

- **Max Drawdown**: The maximum observed loss from peak to trough during a specific period.

- **SML (Small Minus Large)**: Measures the excess return of small-cap stocks over large-cap stocks.

- **HMB (High Minus Low)**: Measures the excess return of high book-to-market stocks over low book-to-market stocks

Key Terms continued

Valuation Terms

- **EV = Enterprise Value**: the measure of a company's total value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. EV can be thought of as the effective cost of buying a company or the theoretical price of a target company (before a takeover premium is considered).
    - Simple EV = Market Capitalization + Market Value of Debt – Cash and Equivalents
    - Extended EV = Common Shares + Preferred Shares + Market Value of Debt + Noncontrolling Interest – Cash and Equivalents
- **TV = Terminal Value**: the estimated value of a business beyond the explicit forecast period. It is a critical part of the financial model, as it typically makes up a large percentage of the total value of a business. There are two approaches to the DCF terminal value formula: perpetual growth and exit multiple.
    - Perpetual Growth: Used by Academics, assumes business will continue to generate Free Cash Flow at a normalized rate forever.
    - Exit Multiple: Used by Industry, assumes business is sold for a multiple of some metric, typically EBITDA, based on currently observed comparable trading multiples.
    - TV = Financial Metric (i.e. EBITDA x Trading Multiple)

- **RV = Relative Valuation**: Models are used to value companies by comparing them to other businesses based on certain metrics such as EV/Revenue, EV/EBITDA, and P/E ratios. The logic is that if similar companies are worth 10x earnings, then the company that's being valued should also be worth 10x its earnings. The two most common types of relative valuation models are **comparable company analysis** and **precedent transactions analysis**.
- **EBITDA = Earnings before Interest, Taxes, Depreciation, and Amortization**:
    - The EBITDA metric is a variation of operating income (EBIT) that excludes certain non-cash expenses. The purpose of these deductions is to remove the factors that business owners have discretion over, such as debt financing, capital structure, methods of depreciation, and taxes (to some extent). It can be used to showcase a firm's financial performance without the impact of its capital structure.
    - EBITDA is not a recognized metric in use by IFRS or US GAAP. In fact, certain investors like Warren Buffet have a particular disdain for this metric, as it does not account for the depreciation of a company's assets.

Key Terms continued

Valuation Terms Continued

- **NOPAT = Net Operating Profit After Tax**: NOPAT stands for Net Operating Profit After Tax and represents a company's theoretical income from operations if it had no debt (no interest expense). NOPAT is used to make companies more comparable by removing the impact of their capital structure. In this way, it's easier to compare two companies in the same industry (i.e., one with no leverage and the other with significant leverage).

- **Spread**: The difference or gap between two related values, such as buying or selling prices.

- **CAGR = Compound Annual Growth Rate**: The measure of an investment's annual growth rate over time, with the effect of compounding considered. It is often used to measure and compare the past performance of investments or to project their expected future returns.
    - CAGR = (Ending Value/Beginning Value) ^ (1/No. of Periods) – 1.

- **WACC = Weighted Average Cost of Capital**: Used in financial modeling as the discount rate to calculate the net present value of a business. More specifically, WACC is the discount rate used when valuing a business or project using the **unlevered free cash flow** approach. Another way of thinking about WACC is that it is the required rate an investor needs to consider investing in the business.

- **Unlevered versus Levered**:
    - Levered cash flow is the amount of cash a business has after it has met its financial obligations.
    - Unlevered free cash flow is the money the business has before paying its financial obligations.
    - It is possible for a business to have a negative levered cash flow if its expenses exceed its earnings.

- **Bloomberg's Debt Adjustment Factor**: Represents the average yield above government bonds for a given rating class. The lower the rating, the higher the adjustment factor. The debt adjustment factor (AF) is only used when a company does not have a fair market curve (FMC). When a company does not have a credit rating, an assumed rate of 1.38 (the equivalent rate of a BBB+ Standard & Poor's long term currency issuer rating) is used. The exact calculation of the debt adjustment factor is a Bloomberg proprietary calculation.

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