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Undergraduate Student Managed Fund

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Meta Platforms Inc. (NYSE: V)

Target Price: \$410.49

Current Price: \$294.64

Stop loss: \$220.98 (25%)

52 Week High/Low: \$384.33- \$253.50

Market Cap (\$B): \$820

Dividend Yield: 0%

Beta: 0.99

% Held by Institutions: 80%

Financial Strength: A+

P/E Ratio: 21

EPS Q3: \$3.22

Book/Share: 47.75

Cash Flow/Share: 11.19

Company Overview

Meta Platforms (formerly Facebook) is a social technology company founded in 2004 by Mark Zuckerberg. The company started as a social media app (Facebook) which would enable friends and family to connect with one another online. They have developed into a mega-cap tech giant, and a parent company of Facebook, Instagram, WhatsApp, and numerous other subsidiaries. 97.7% of their revenues come from digital advertising, mostly on the apps Facebook and Instagram. The rest of their revenue comes from their payments infrastructure and Oculus VR Headsets. Geographically, 47% of Meta's revenue is in the US, while 24% come from Europe, 19% in Asia Pacific, and 10% in the rest of the world. This goes to show that the US market is dominant in digital advertising, and there is lots of room for growth overseas.

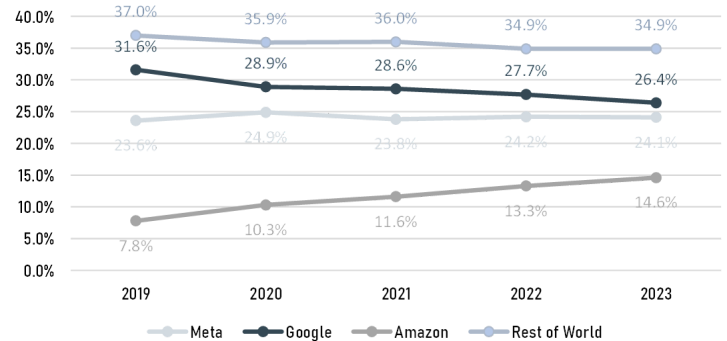
Industry Outlook

Meta operates in the digital advertising and social media industry. The companies in this industry have developed sophisticated algorithms that are able to target clients based on their needs and preferences. The global digital ad spend was \$455B in 2021, with an industry CAGR of 14%. There are numerous factors that cause this industry to grow. As social media platforms such as Instagram and Facebook gain new members, this industry grows due to the growth of the target market. Only 64% of advertisements worldwide are digital, and so there is plenty of room for physical ads to change to more relevant advertising methods. High demand for technology and media helps digital advertising as a whole bring in more revenues. Lastly, as small businesses and start ups come about faster than ever before, they often turn to digital ads on social media platforms, which will inevitably help these advertising companies gain market share.

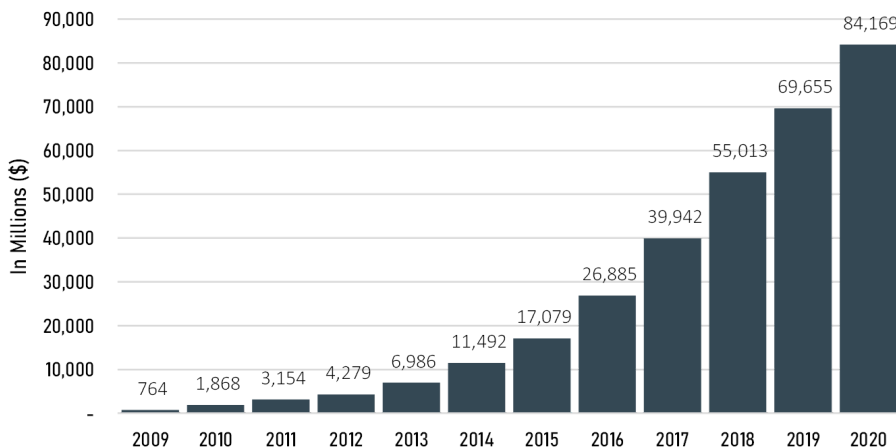
Investment Thesis

Meta Platforms is a dominant company in the space of digital advertising. Clearly, they are a mega cap tech giant that has developed into a global brand. Recently, they rebranded to "Meta" to focus more on growth in the virtual space as a whole rather than just social media by itself. Meta is favorably positioned to adapt to new technological innovations and changes to the virtual environment in the future, proven by their persistent investment in R&D to develop new products and improve existing ones. They have zero debt which enables them to put tens of billions into R&D and stock buybacks, improving their business model and shareholder value. Quantitatively, their revenue and earnings growth is quite eye-opening, with their revenue growing by more than 27% on average. Another point to be made in favor of Meta is that their ROE, ROA, and ROIC outperforms their closest competitors (Google, Amazon) significantly.

Digital Advertising Market Share



Meta Ad Revenue 2009-2020



Financial Performance

(\$ in millions)	Historical						Assumptions					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net Revenues	27,638	40,653	55,838	70,697	85,965	113,268	143,461	181,723	233,264	296,782	378,163	482,805
%Δ YOY	-	47%	37%	27%	22%	32%	27%	27%	28%	27%	27%	28%
Advertising	26,885	39,942	55,013	69,655	84,169	110,335	139,746	177,017	227,224	289,097	368,370	470,303
%Δ YOY	-	49%	38%	27%	21%	31%	27%	27%	28%	27%	27%	28%
Payments and Other	753	711	825	1,042	1,796	2,933	3,715	4,706	6,040	7,685	9,792	12,502
%Δ YOY	-	-6%	16%	26%	72%	63%	27%	27%	28%	27%	27%	28%
COGS	(3,789)	(5,454)	(9,355)	(12,770)	(16,692)	(22,072)	(24,079)	(31,725)	(41,052)	(51,955)	(64,756)	(83,497)
% of Revenue	-14%	-13%	-17%	-18%	-19%	-16%	-17%	-17%	-18%	-18%	-17%	-17%
Gross Profit	23,849	35,199	46,483	57,927	69,273	91,196	119,382	149,998	192,212	244,827	313,407	399,307
Gross Margin %	86%	87%	83%	82%	81%	81%	83%	83%	82%	82%	83%	83%
SG&A	(5,503)	(7,242)	(11,297)	(15,341)	(18,155)	(22,680)	(30,338)	(38,895)	(49,128)	(63,032)	(81,404)	(104,189)
%Δ YOY	0	32%	56%	36%	18%	25%	34%	28%	26%	28%	29%	28%
R&D	(5,919)	(7,754)	(10,273)	(13,600)	(18,447)	(23,925)	(31,903)	(42,611)	(57,038)	(76,095)	(101,621)	(135,760)
%Δ YOY	0	31%	32%	32%	36%	33%	33%	34%	34%	33%	34%	34%
Operating Expenses	(11,422)	(14,996)	(21,570)	(28,941)	(36,602)	(46,605)	(62,241)	(81,506)	(106,166)	(139,128)	(183,025)	(239,949)
EBIT	12,427	20,203	24,913	28,986	32,671	44,591	57,141	68,491	86,046	105,699	130,382	159,358
Other Non-Op. Income (Expenses)	-	-	-	(5,000)	-	-	(833)	(833)	(833)	(833)	(833)	(833)
EBT	12,518	20,594	25,361	24,812	33,180	45,040	56,761	68,171	85,745	105,414	130,055	159,025
Income Tax Expense	(2,301)	(4,660)	(3,249)	(6,327)	(4,034)	(6,867)	10,096	12,058	14,461	18,491	21,088	26,860
Tax Rate	18%	23%	13%	25%	12%	15%	18%	18%	17%	18%	16%	17%
NOPLAT	10,217	15,934	22,112	18,485	29,146	38,173	46,665	56,112	71,284	86,924	108,967	132,165
% Growth YoY	0.0%	56.0%	38.8%	-16.4%	57.7%	31.0%	22.2%	20.2%	27.0%	21.9%	25.4%	21.3%
D&A	(1,591)	(2,333)	(3,675)	(5,179)	(6,389)	(8,833)	(8,660)	(11,054)	(14,324)	(18,006)	(22,150)	(27,012)
% of Revenue	-5.8%	-5.7%	-6.6%	-7.3%	-7.4%	-3.4%	-6.0%	-6.1%	-6.1%	-6.1%	-5.9%	-5.6%
CAPEX & Acquis.	(4,491)	(6,733)	(13,915)	(15,102)	(15,115)	(11,071)	(25,452)	(32,693)	(42,521)	(50,789)	(62,038)	(78,257)
% of Revenue	-16.2%	-16.6%	-24.9%	-21.4%	-17.6%	-9.8%	-17.7%	-18.0%	-18.2%	-17.1%	-16.4%	-16.2%
NWC	-	14,101	(2,780)	8,473	11,873	2,042	-	-	-	-	-	-
FCF	7,317	(2,567)	14,652	89	8,547	28,893	29,872	34,474	43,087	54,141	69,079	80,920

In terms of financial performance, we are excited by the growth in cash over the past few years on the balance sheet as well as the relatively small amount of debt.

Investment Risks

- (1) As with most equities, one potential risk to Meta's growth would be an unanticipated slowdown in global economic growth. This could materially impact advertising spending, which accounts for over 90% of Meta's net revenues. A shift away from social media usage worldwide could hold similar ramifications for Meta's operations.
- (2) A decline in social media usage could be catalyzed by concerns with data privacy. Thus, any operational transgressions or political turmoil regarding consumer data security could play a pivotal role in the future operations of Meta as a whole.
- (3) As with other mega-capitalization firms, Meta faces the risk of regulatory involvement in antitrust lawsuits. Though Meta is confident in mitigating legal risks associated with the breakup of its subsidiaries, such occurrences could lead to largely disrupted operations and a material loss of synergies between Meta's subunits.

ESG Considerations

Meta Platforms has a unique business culture and they strive for a diverse and inclusive work environment. They have a positive social impact in the sense that they are helping people around the world connect with one another. They have a number of skepticisms surrounding the data and privacy side of their business, which are being thoroughly addressed by top management and they are finding solutions to these concerns.

ESG Risk Rating

COMPREHENSIVE ?

32.4 High Risk

