

Investment analysis of



Recommendation

Long Term Hold...

PE ~ 26

Market Cap ~ 1.45T

Strengths

- Exceptional cash flow generation and profit margins
- Dominant social platforms with billions of users
- Significant AI and metaverse growth potential

Risks

- Intense regulatory scrutiny over data practices
- Large Reality Labs R&D losses (\$16B 2023)
- Mounting legal/privacy challenges across global markets

Company Segments

(2021/2022 Change)

Major 2022 Restructuring Costs

- \$4.61B total charges (\$4.10B Family of Apps, \$515M Reality Labs)
- 22% headcount decrease
- Consolidated office space, abandoned/subleased properties



Share price tanked from \$378 to \$91 from Sept 2021 to Nov 2022

META Reality Labs Segment

Focus on developing futuristic AR, VR, and Metaverse technologies

Eg: Meta Quest, Ray-Ban Meta Smart-Glasses

Only generates \$1.9 billion in revenue

16.12 billion in ***operating loss*** in 2023

(Massive R&D towards building future tech)

Positions them for leadership in next generation social technology

Family of Apps Segment

Core Business

Facebook, Instagram, Messenger, Whatsapp

3.29 Billion Daily users

Average of \$44.60 annual revenue per customer
(but growing)

Revenue comes primarily from ***Advertising***

\$133.01 billion of revenue in 2023

47% margins (98.6% of Company Revenue)

2025 BOOK VALUE AND REVENUE FORECAST

	2025	2024	2023
Starting BV	169,126	153,168	125,713
Comprehensive Income	63,939	59,676	40,473
Ending BV	200,305	169,126	153,168
Implied Distributions	32,760	43,718	13,018
Ratio	51.2%	73.3%	32.2%

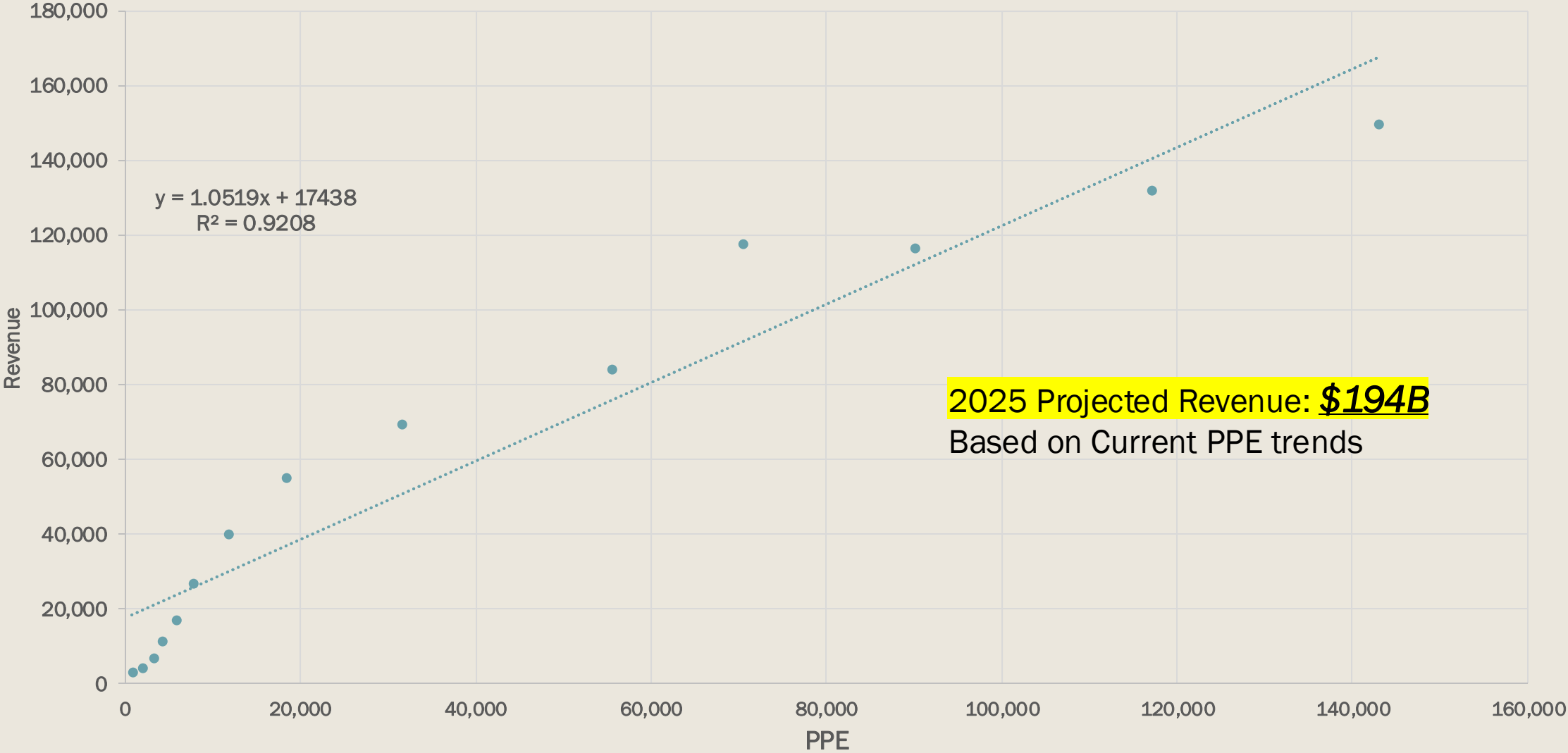
- Used Q1-Q3 2024 to extrapolate Q4 2024
- Then used trends and short term historical averages to project further to 2025
- Company does not distribute dividends, does all redistributions in the form of buybacks

2025 Book Value and Revenue Forecast

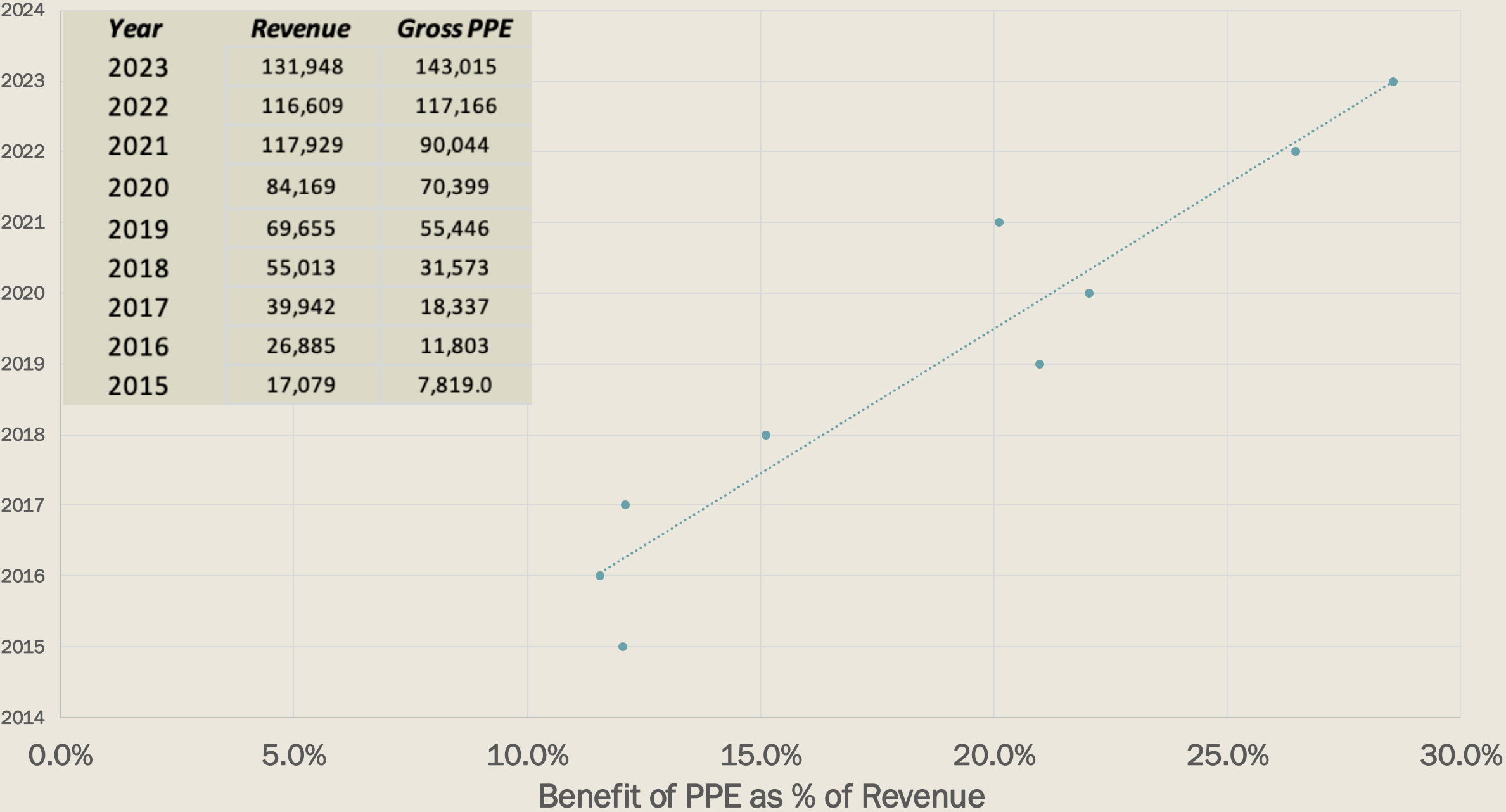
PPE as Revenue/Growth Predictor

92% R-Squared

Year T Revenue Vs T-1 PPE



Benefit of PPE as % of Revenue



In Millions of \$		0	1	2	3	4	5	6	7
		2024	2025	2026	2027	2028	2029	2030	Terminal Value
Revenue Growth		11.0%	29.6%	15.0%	13.0%	11.5%	10.0%	8.5%	
Revenue		149,687	193,977.79	223,074.46	252,074.14	281,062.67	309,168.94	335,448.29	
CI Margin		39.9%	33.0%	32.6%	32.6%	32.6%	32.6%	32.6%	
Comprehensive Income		59,676	63,938.76	72,636.23	82,078.94	91,518.02	100,669.82	109,226.76	
Distribution Ratio		28.5%	46.3%	46.3%	46.3%	46.3%	46.3%	46.3%	
Distributions		17,033	29,583	33,607	37,976	42,343	46,577	50,536	
Book Value of Equity		169,126	203,482.01	242,511.30	286,614.41	335,789.38	389,881.84	448,572.16	
ROE		47.5%	37.8%	35.7%	33.8%	31.9%	30.0%	28.0%	
Required Income		17,384.57	19,195.81	23,095.21	27,525.03	32,530.74	38,112.09	44,251.59	
Residual Income		59,676	44,743	49,541	54,554	58,987	62,558	64,975	5% Terminal Growth
PV Residual Income		NA	40,182.26	39,956.23	39,514.38	38,370.51	36,545.16	34,088.36	1,053,927.93
Discount Rate	11.4%								
Analyst CAPM	8.5%		Long Run ROE	20-25%	(Trends down for few years and then stabilizes)		5% = Company will eventually go to ~ 3% but likely not for decades		
Market Cap @ Nov 15th 2024 Aprox	1,450,000.00								

YEAR	2023	2022	2021	2020	2019	2018	2017	2016
Users	2.96B	2.87B	2.81B	2.63B	2.38B	2.21B	1.98B	1.68B
YoY User Growth	3.2%	2.1%	6.9%	10.3%	7.7%	11.9%	17.5%	17.8%
Revenue Per User (Average)	44.60	39.63	40.96	32.03	29.25	24.96	20.21	15.98

Regulation

- EU regulations forcing shift to consent-based advertising
- Privacy changes hurting ad targeting effectiveness
- Geographic revenue variations due to regional regulations
- Data sharing restrictions impacting cross-platform monetization


Big Picture

Meta is facing increasing scrutiny over how they collect and use people's data. Regulators worldwide are tightening rules, forcing the company to change how they make money from advertising. This threatens their core business model of using detailed user data to target ads effectively.

“In particular, legislative and regulatory developments such as the General Data Protection Regulation, including its evolving interpretation through decisions of the Court of Justice of the European Union, ePrivacy Directive, the European Digital Services Act, and U.S. state privacy laws including the California Consumer Privacy Act, as amended by the California Privacy Rights Act, have impacted our ability to use data signals in our ad products, and we expect these and other developments such as the Digital Markets Act will have further impact in the future.”

THL

SOCIAL MEDIA ADDICTION LAWSUITS



Major companies like Meta, TikTok, Snapchat, and others are facing lawsuits filed by individuals who have developed addictions to social media, leading to mental health issues.

Contact us for a free consultation or use the confidential chatbot on this page for a free case evaluation.

LAWSUIT STATUS:

Active Litigation

Altman Z

- Overall strong financial health. Z score has remained well over danger threshold even during downturn. Very low bankruptcy risk
- Large drop in market cap and investor confidence in 2022 after re-branding. Share price has recovered very strong
- Working Capital and Total Assets to Retained Earnings ratios have remained mostly strong

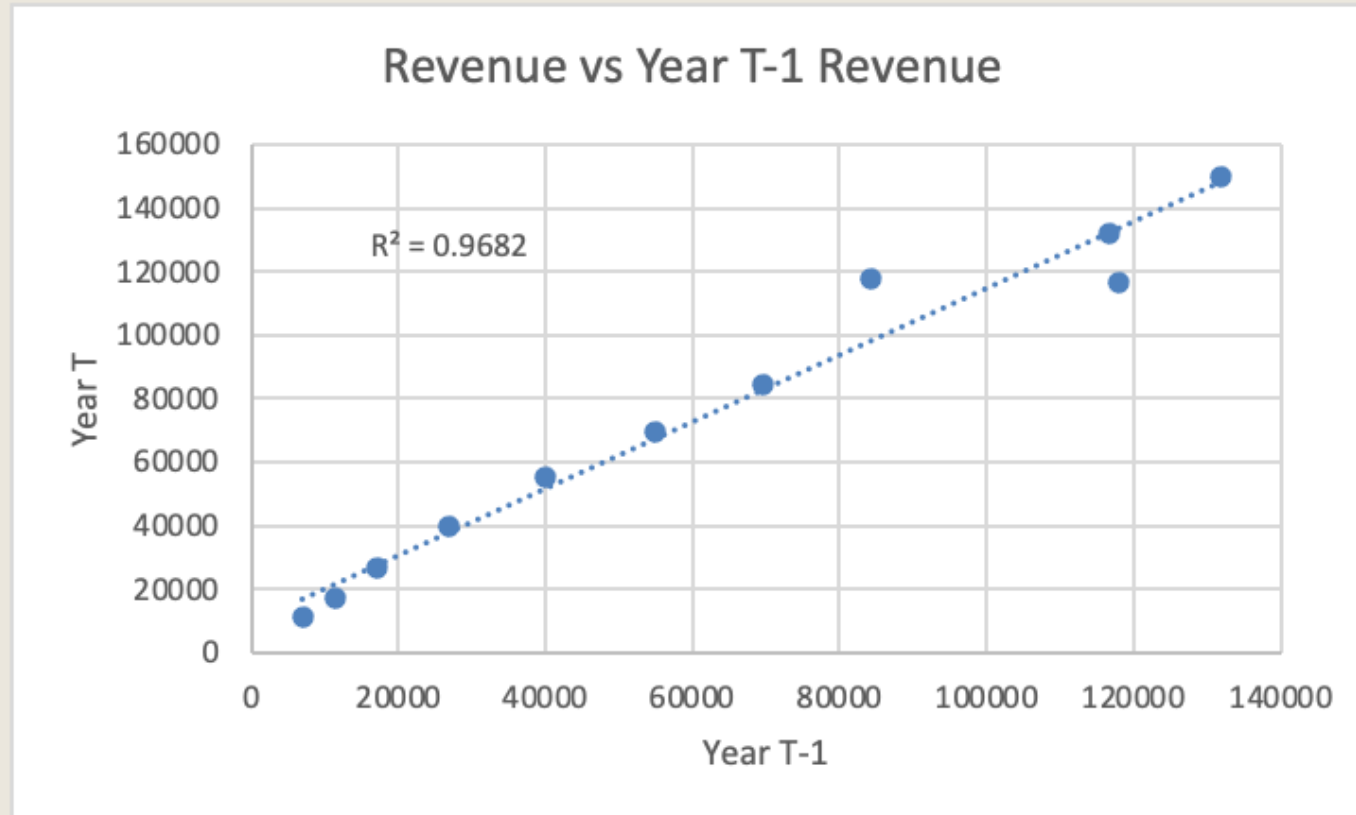
		x1				x2		x3			x4			x5		
<u>Year</u>	<u>Z Score</u>	Working Cap	Score	Total Assets	Retained Earnings	Score	Total Assets	Operating Income	Score	Total Assets	Market Cap	Score	Total Liabilities	Sales	Score	Total Assets
2024	11.57405729	57,737	0.225	256,408	84,972	0.331	256,408	61,836	0.241	256,408	1,448,668	15.77	91,879	149,687	0.58378478	256,408
2023	9.214125508	53,405	0.233	229,623	82,070	0.357	229,623	50,203	0.219	229,623	909,629	11.9	76,455	131,948	0.574628848	229,623
2022	5.077458688	32,523	0.175	185,727	64,799	0.349	185,727	33,555	0.181	185,727	315,555	5.258	60,014	116,609	0.627851632	185,727
2022	16.21391874	45,531	0.274	165,987	69,761	0.42	165,987	46,753	0.282	165,987	935,645	22.76	41,108	117,929	0.710471302	165,987
2021	17.3880554	60,689	0.381	159,316	77,345	0.485	159,316	32,671	0.205	159,316	778,040	25.08	31,026	84,169	0.528314796	159,316

Dupont Analysis

- 2022 dip in metrics due to Reality Labs rebrand
- Leverage has increased slowly and steady which indicates responsible partially debt financed expansion
- ROE has climbed to impressive heights at 32.6% primarily driven by increasing profit margin
- Overall trend of impressive steady growth and adeptly handled investment/expansion to AR/VR/Metaverse goals

	<i>ROE</i>	<i>Net Income</i>	<i>Profit Margin</i>		<i>Sales</i>	<i>Asset Turnover</i>	<i>Assets</i>	<i>Total Leverage</i>	<i>Book Value of Equity</i>
2024 (Q3)	32.6%	53,580	35.8%	📈	149,687	58.4%	📈 256,408	1.558436507	164,529
2023	25.5%	39,098	29.6%	📈	131,948	57.5%	📈 229,623	1.499157788	153,168
2022	18.5%	23,200	19.9%	📈	116,609	62.8%	📈 185,727	1.477388973	125,713
2021	31.5%	39,370	33.4%	📈	117,929	71.0%	📈 165,987	1.329182649	124,879
2020	22.7%	29,146	34.6%	📈	84,169	52.8%	📈 159,316	1.2418427	128,290
2019	18.3%	18,485	26.5%	📈	69,655	52.2%	📈 133,376	1.319848794	101,054
2018	26.3%	22,111	40.2%	📈	55,013	56.5%	📈 97,334	1.156988838	84,127

Accounting Quality - Revenue Regression



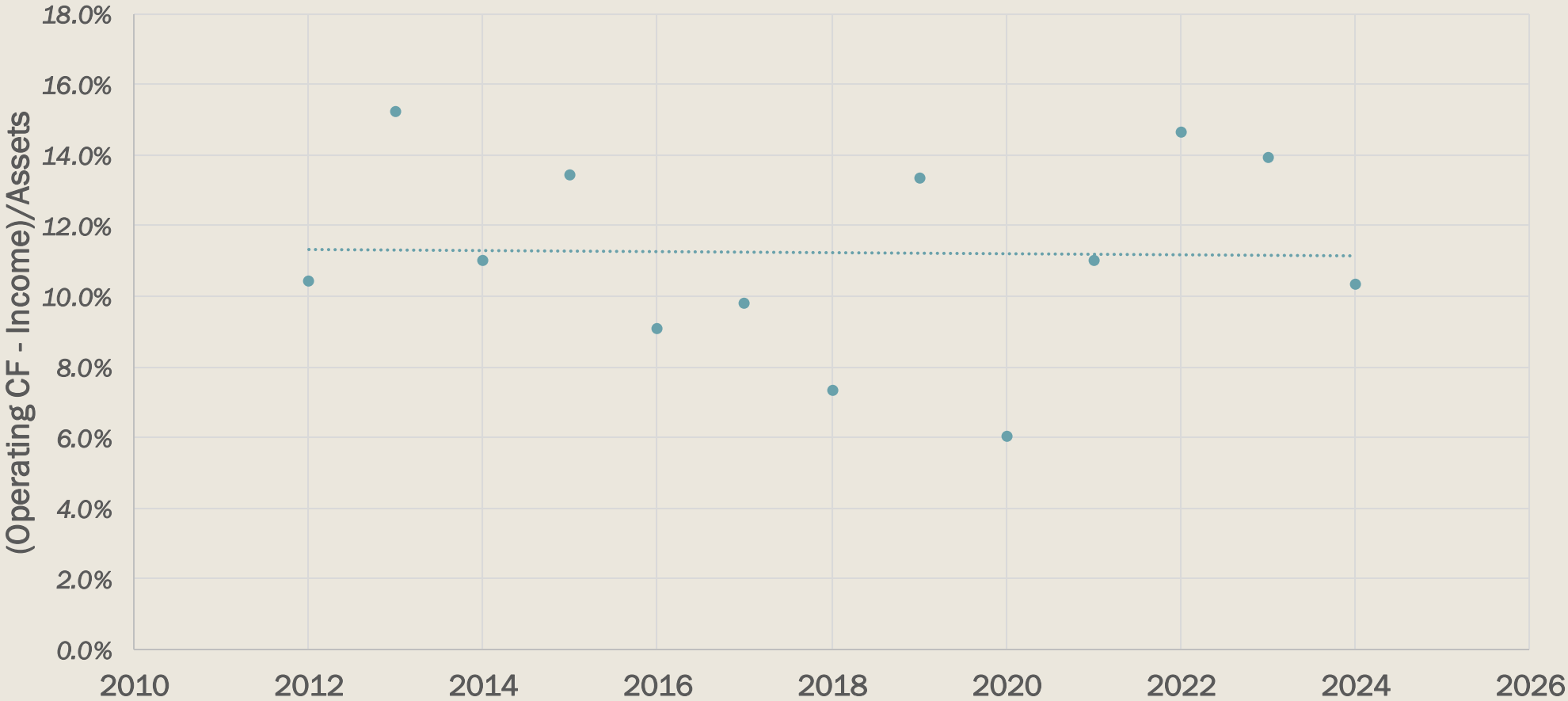
- $R^2 = 0.971$ (97.1% predictability)
- Slope coefficient = 1.067 (high persistence)
- Statistically significant ($p < 0.001$)
- Strong predictive power of future performance

Operating CF Vs Income

No Red Flags

- Stable average ~11% over 12+ years
- Consistent 6-15% range despite rapid company growth
- The consistently higher operating cash flow reflects two major and growing non-cash expenses, share based compensation (\$16-17B annually) and depreciation (\$14-15B annually).
- Supports strong accounting quality despite exceeding 5% benchmark

(Operating CF – Income) as % of Assets



References

<https://thebrandgym.com/wp-content/uploads/2021/11/screenshot-2021-11-03-at-09.50.21.png>

<https://www.torhoermanlaw.com/social-media-mental-health-lawsuit/social-media-addiction-lawsuits/>