

MetaPlatformsInc.(META)

Framing The Revenue Growth Opportunity & Investment Priorities

Meta, a titan in the tech industry, dominates social media and digital advertising. Platforms like Facebook, Instagram, Messenger, and WhatsApp have a huge user base, revolutionizing social interaction and information dissemination. Financially, Meta is robust, with rising revenues and high profitability ratios, and its balance sheet reflects strong liquidity and a stable capital structure.

In terms of technological innovation, Meta is actively exploring AI, VR, and AR. Substantial AI investment could boost user engagement and monetization, and its metaverse exploration, though profitability is uncertain, holds potential for new revenue streams. However, Meta faces challenges. It's heavily reliant on ad revenue, vulnerable to marketers' spending shifts and regulatory scrutiny on privacy, data use, and content. It also contends with numerous lawsuits and government investigations.



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1 Company Overview

A comprehensive overview of the company, including its mission, vision, and key value propositions. This section will provide insights into the company's history, industry positioning, and overall market presence. The company was founded with the goal of delivering innovative solutions to address industry challenges. Over the years, it has established itself as a leader in its field, expanding its reach to global markets and continuously adapting to technological advancements.

1.1 Business Segment

The company operates across multiple business segments, each contributing to its overall growth and market reach. These segments include:

The company specializes in a diverse range of products and services tailored to meet customer demands. Its core offerings include cutting-edge software solutions, AI-driven analytics tools, cloud computing services, and advanced hardware components. The company's unique selling points include state-of-the-art technology, seamless integration capabilities, and a strong focus on customer satisfaction.

The company serves a broad spectrum of industries, including finance, healthcare, manufacturing, retail, and government sectors. With a global presence, it caters to businesses of all sizes, from startups to multinational corporations. Key geographic regions include North America, Europe, and the Asia-Pacific region, where demand for its services is rapidly growing.

The company generates revenue through multiple channels, including direct product sales, recurring subscription-based models, licensing agreements, consulting services, and strategic partnerships. By diversifying its income sources, the company maintains financial stability and adapts to shifting market trends.

Emerging trends, such as the increasing adoption of AI-driven automation, digital transformation initiatives, and cloud computing advancements, continue to shape the company's growth strategy. By investing in research and development, the company remains ahead of the curve in offering next-generation solutions to evolving market needs.

1.2 Business Structure

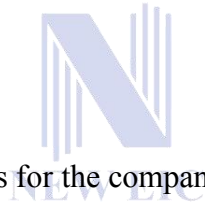
The company is structured to optimize efficiency, innovation, and customer satisfaction. Key components of the organizational framework include:

The company's leadership consists of a well-defined executive team, including a CEO, CFO, CTO, and various department heads. The board of directors provides strategic guidance, ensuring alignment with long-term business objectives and sustainable growth.

The company operates through specialized divisions, each dedicated to a specific function. The Research & Development (R&D) division focuses on technological innovation, while the Sales and Marketing team drives brand awareness and customer acquisition. The Finance department manages budgeting and financial planning, while the Customer Support division ensures service excellence.

The company has established regional offices in key markets, allowing it to respond to local customer needs efficiently. With headquarters in a major metropolit

1.3 AI R&D Investment



Artificial Intelligence (AI) is a major focus for the company, driving innovation and efficiency across various business functions. Key aspects of AI-related research and development (R&D) investments include:

The company allocates a significant portion of its annual budget to AI research and development. This includes investments in state-of-the-art AI labs, hiring top-tier AI specialists, and procuring cutting-edge computing resources. The company is actively working on AI-driven projects, such as predictive analytics models, natural language processing tools, robotic process automation, and autonomous decision-making systems. These initiatives aim to enhance business productivity, streamline workflows, and deliver superior customer experiences.

To strengthen its AI capabilities, the company has forged partnerships with leading AI research institutions and startups. Additionally, it has acquired AI-focused companies to integrate innovative technologies into its existing product offerings.

AI integration has significantly improved the company's efficiency by automating routine tasks, reducing operational costs, and enhancing decision-making processes. The adoption of AI-powered

analytics has also enabled the company to gain deeper insights into customer behavior and market trends, further refining its business strategies.

1.4 Meta Financial Performance

Meta Platforms Inc. (META) has demonstrated strong financial performance in recent years, reflecting its strategic investments and market positioning. Key highlights of Meta's financial performance include:



Revenue Growth: Meta's total revenue has been on an upward trajectory, with estimated revenue growth of 21.1% in 2024, reaching approximately \$163.4 billion, and projected to grow to \$216.5 billion by 2026. The company's primary revenue driver remains digital advertising, supported by the increasing adoption of Reels monetization, Advantage+ automation, and messaging-based advertisements.

Profitability & Margins: Meta's EBITDA is projected to reach \$80.8 billion in 2024, growing to \$113.2 billion by 2026. Operating margins have remained strong, reflecting the company's ability to balance growth investments with operational efficiency.

AI & Infrastructure Investment: Meta has significantly increased its capital expenditure, with a forecasted \$60.2 billion investment in AI-related infrastructure by 2025. This investment supports its long-term strategy in AI, Reality Labs, and cloud computing.

Earnings Per Share (EPS): Meta's EPS is expected to grow from \$22.61 in 2024 to \$27.69 in 2026, reflecting both revenue expansion and operational efficiency improvements.

Market Valuation & Investor Sentiment: Meta's market capitalization stands at approximately \$1.6 trillion, with a price-to-earnings (P/E) ratio forecasted at 26.9x in 2024. Investor sentiment remains positive, driven by the company's sustained growth in advertising revenue and advancements in AI monetization.

2. Industry Analysis

2.1 Industry Trend

Meta operates at the intersection of digital advertising, artificial intelligence (AI), social media, and virtual/augmented reality (VR/AR). These industries are undergoing rapid transformation, with numerous key trends shaping their future directions.

In an increasingly competitive environment, the digital advertising industry continues to grow. From 2024 to 2026, the global (ex - China) digital advertising industry is expected to maintain low double-digit growth, while Meta's ad revenue is projected to grow at a higher mid-teens rate. The rise of short-form video ads is particularly strong. Reels ad revenue is expected to grow at a 59% compound annual growth rate (CAGR), becoming a key growth driver for Facebook and Instagram. Meanwhile, Meta's Advantage+ AI-driven advertising tools are constantly enhancing ad targeting efficiency, improving the return on ad spend (ROAS), and attracting more advertisers, further propelling the development of the digital advertising business.

In terms of artificial intelligence and monetization strategies, Meta has made substantial investments. Meta AI, Llama AI models, and generative AI tools are not only used to optimize ad delivery but also applied to content recommendations and business applications, such as AI-powered customer service. In the future, AI-driven revenue streams may include ad optimization, AI Agents (paid AI tools for businesses and creators), and Llama AI licensing, which will open up new profit-making channels for Meta.

The development of VR/AR and the metaverse is also progressing steadily. Meta's Quest headsets, Ray-Ban smart glasses, and Horizon Worlds metaverse platform are still in the early stages. Long-term monetization potential is expected to emerge after 2026. Although short-term profitability remains limited, sustained investment in spatial computing, VR/AR hardware, and mixed-reality experiences is expected to pay off handsomely in the long run.

Regarding social media user growth and monetization, although the overall user growth rate of social platforms is slowing down, Meta is increasingly focusing on monetizing private messaging (Click -

to - Message ads) across platforms like WhatsApp, Instagram, and Messenger. Click - to - Message and paid messaging services are expected to grow at a 29% CAGR, becoming one of the main drivers of Meta's ad revenue.

2.2 Industry Comparison

Meta competes with major players in digital advertising, AI, and social media. A comparative analysis of key competitors is as follows:

Company	Core Business	Competitive Strengths	Competitive Weakness
meta (META)	Digital advertising, AI, social media, VR/AR	Largest social media advertising platform, strong AI-driven ad tools, WhatsApp monetization potential	High reliance on ad revenue, Reality Labs remains unprofitable
Google (GOOGL)	Search advertising, YouTube, AI, cloud computing	Dominates search advertising, strong YouTube ad growth, expanding cloud business	AI-driven disruptions may reshape ad model
TikTok (Bytedance)	Short-form video, advertising, social commerce	High engagement, rapid ad growth, strong social commerce monetization	Regulatory risks, potential US ban
Snapchat (SNAP)	Short-form video, AR advertising	Strong AR engagement, solid Gen Z audience	Slower revenue growth, weaker profitability
Apple (AAPL)	Hardware, App Store ads, AI	Large iOS ecosystem, fast-growing services revenue	Ad business still relatively small

In the complex battlefield of digital advertising, Meta is engaged in intense competition with numerous rivals. Each side has its own strengths in different market segments, presenting a diverse competitive landscape.

Google is a behemoth in the search advertising field, and its position is hard to shake in the short term. Over the years, with its continuously evolving search engine technology, Google can accurately grasp users' search intentions. Billions of users worldwide input various keywords into Google's search box every day, whether they are looking for information, services, or products to purchase. Google's search results page can skillfully integrate highly relevant ads. For example, when a user searches for "smartphone recommendations", Google will display the latest product ads

of major mobile phone brands based on the user's search history, geographical location, and other information. Advertisers can thus precisely reach their target customers and achieve sales conversions. This precise advertising placement model has made search advertising the core source of Google's advertising revenue.

On the other hand, Meta stands out in social media advertising. Platforms like Facebook and Instagram under Meta have gathered a huge user base, forming a powerful social influence. Among them, Reels short - form video ads, with their entertainment and interactivity, have quickly attracted a large number of users. Advertisers have flocked in, and its advertising revenue has been surging. Click - to - Message ads are a major innovation. They break down the communication barrier between users and businesses. Users can directly initiate instant communication when browsing ads, consult product details, and place orders, greatly improving the conversion rate of ads. Moreover, Meta uses artificial intelligence technology to deeply mine users' behavior data on the platform, such as likes, comments, and shares, and accurately analyze users' hobbies and consumption tendencies. For a user who frequently follows fitness topics, Meta will push relevant ads such as fitness equipment and exercise courses, greatly increasing the relevance of ads, optimizing the advertising effect, and enabling advertisers to get a higher return on their investment.

TikTok has achieved explosive growth in the short - form video field. Its unique algorithm recommendation mechanism and a wide variety of creative content have attracted a massive number of users globally, especially among the younger generation. However, TikTok faces regulatory uncertainties in the United States. Once it encounters strict regulatory restrictions, it is estimated that \$6 - 8 billion of advertising revenue will be re - allocated, which undoubtedly provides potential development opportunities for Meta.

Although Meta's Reels has also made certain progress in the short - form video field, there is still a gap compared with TikTok. In terms of user engagement and content dissemination, Meta needs to further optimize the monetization strategy of Reels. For example, exploring more diversified advertising forms and improving the cooperation efficiency between creators and advertisers to narrow the gap with TikTok and fully tap the potential of the short - form video advertising market.

Snap performs outstandingly in the augmented reality (AR) field. Its developed AR filters and other functions are deeply loved by users, bringing unique interactive experiences to users and accumulating a deep user base in AR interaction. However, compared with Meta, Snap has obvious weaknesses in user scale and advertising monetization capabilities. Meta's huge user network and

diversified advertising product lines enable it to achieve large - scale advertising placement and efficient monetization, which Snap can hardly match in the short term.

Apple's advertising business mainly relies on the App Store. With the continuous development of the application market, its advertising revenue has also been growing steadily. But in the entire digital advertising market, compared with Meta and Google, Apple's advertising business is relatively small in scale and limited in influence. However, Apple's consistent privacy - protection concept has had a profound impact on the data collection and usage methods of the entire advertising industry, prompting companies like Meta to continuously optimize their advertising placement strategies to achieve accurate marketing while protecting user privacy.

In conclusion, in the competition with different competitors, Meta has both its own advantageous areas and faces various challenges. Through continuous innovation and strategy optimization, Meta is expected to consolidate and expand its position in the highly competitive digital advertising market and promote the continuous development of the industry.

2.3 Market Opportunity

Over the next two to five years, Meta is expected to encounter significant market opportunities in multiple key areas, further strengthening its position in the digital realm.

In terms of digital advertising revenue growth, AI - driven precise placement is emerging as a powerful boost for Meta. The application of AI in advertising optimization, represented by Advantage+, has significantly enhanced the accuracy and conversion rate of Meta's ad placements. Through in - depth analysis of massive user data, Meta can accurately target the audience and deliver suitable ads to users with real demands. This advantage has attracted an increasing amount of advertising budgets from more and more advertisers. Notably, WhatsApp Click - to - Message ads show great growth potential. It is estimated that by 2026, their market size will exceed \$23.8 billion, and they are expected to become the core driver of Meta's advertising revenue growth. This form of advertising directly opens up the communication channel between users and businesses, greatly improving the interactivity and conversion effect of ads.

With TikTok having withdrawn from the US market, Meta has ushered in an excellent development opportunity. It is estimated that Meta has the opportunity to take over 30 - 50% of TikTok's advertising revenue transfer, which will bring an additional revenue growth of \$6 - 8 billion to Meta. A large amount of advertising budgets originally invested on the TikTok platform have flowed into Meta's social media platforms such as Facebook and Instagram, further expanding Meta's share in the

social media advertising market. Meanwhile, many users who were originally active on TikTok have also started to switch to Meta's platforms. This not only increases the platform's activity but also brings more advertising display opportunities and potential business cooperation possibilities for Meta.

	2025E					
TikTok US Ad Revenues (eMarketer Ests)	\$ 12,646					
Meta Platforms (META)						
% of US TikTok Revenues Captured	40.0%	45.0%	50.0%	55.0%	60.0%	65.0%
\$ revenue benefit	\$ 5,058	\$ 5,691	\$ 6,323	\$ 6,955	\$ 7,587	\$ 8,220
META Total Revenues - Current GSe	\$ 190,308	\$ 190,308	\$ 190,308	\$ 190,308	\$ 190,308	\$ 190,308
% y/y growth	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
META Total Revenues - Incl. TikTok	\$ 195,366	\$ 195,999	\$ 196,631	\$ 197,263	\$ 197,895	\$ 198,528
% y/y growth	19.6%	20.0%	20.4%	20.7%	21.1%	21.5%
% tailwind	2.7%	3.0%	3.3%	3.7%	4.0%	4.3%
y/y growth tailwind (bps)	310 bps	348 bps	387 bps	426 bps	464 bps	503 bps
META Advertising Revenues - Current GSe	\$ 185,297	\$ 185,297	\$ 185,297	\$ 185,297	\$ 185,297	\$ 185,297
% y/y growth	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%
META Advertising Revenues - Incl. TikTok	\$ 190,356	\$ 190,988	\$ 191,620	\$ 192,253	\$ 192,885	\$ 193,517
% y/y growth	19.5%	19.9%	20.3%	20.7%	21.1%	21.5%
% tailwind	2.7%	3.1%	3.4%	3.8%	4.1%	4.4%
y/y growth tailwind (bps)	317 bps	357 bps	397 bps	437 bps	476 bps	516 bps
META US & Canada Ad Revenues - Current GSe	\$ 80,109	\$ 80,109	\$ 80,109	\$ 80,109	\$ 80,109	\$ 80,109
% y/y growth	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%
META US & Canada Ad Revenues - Incl. TikTok	\$ 85,167	\$ 85,799	\$ 86,432	\$ 87,064	\$ 87,696	\$ 88,329
% y/y growth	21.9%	22.8%	23.7%	24.6%	25.5%	26.4%
% tailwind	6.3%	7.1%	7.9%	8.7%	9.5%	10.3%
y/y growth tailwind (bps)	724 bps	814 bps	905 bps	995 bps	1086 bps	1176 bps

The metaverse and AI monetization fields also hold new opportunities. Although the Reality Labs business is currently still in the investment stage, with the continuous upgrading of products such as Quest and Ray - Ban smart glasses, the AR/VR device market is expected to experience rapid growth after 2025. Meta's continuous investment in the metaverse is expected to yield substantial returns in the future. In addition, the commercial licensing model of Llama AI also has great potential. It may gain a foothold in the enterprise market and challenge industry giants like OpenAI and Google. By providing customized AI solutions to enterprises, Meta can open up new sources of revenue and meet the diverse needs of enterprises during the intelligent transformation process.

In terms of cloud computing and AI infrastructure investment, Meta continues to increase its investment in AI data centers and computing power infrastructure, actively competing with Google Cloud, AWS, and others. This strategic layout not only helps to enhance Meta's own technical strength but also may promote the commercial implementation in the fields of cloud computing and AI SaaS. By providing efficient cloud computing services and innovative AI SaaS products, Meta

can expand its business boundaries, provide more comprehensive technical support for enterprises and developers, and thus gain a share in the emerging cloud computing market.

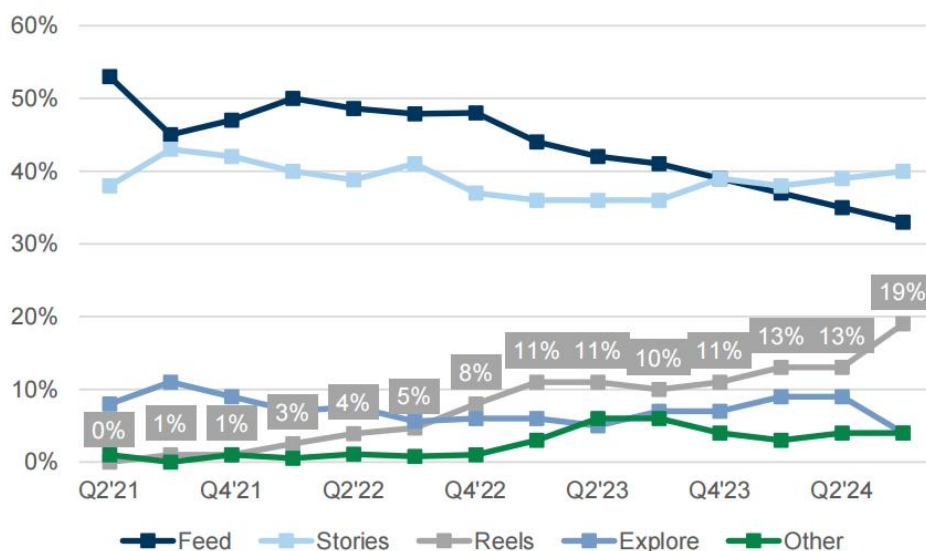
In conclusion, Meta has abundant market opportunities in the next 2 - 5 years, covering multiple fields such as digital advertising, emerging technology monetization, and infrastructure construction. By fully grasping these opportunities, Meta is expected to achieve diversified business growth and maintain a leading position in the highly competitive digital market.

3. Business Strategy

3.1 Reels

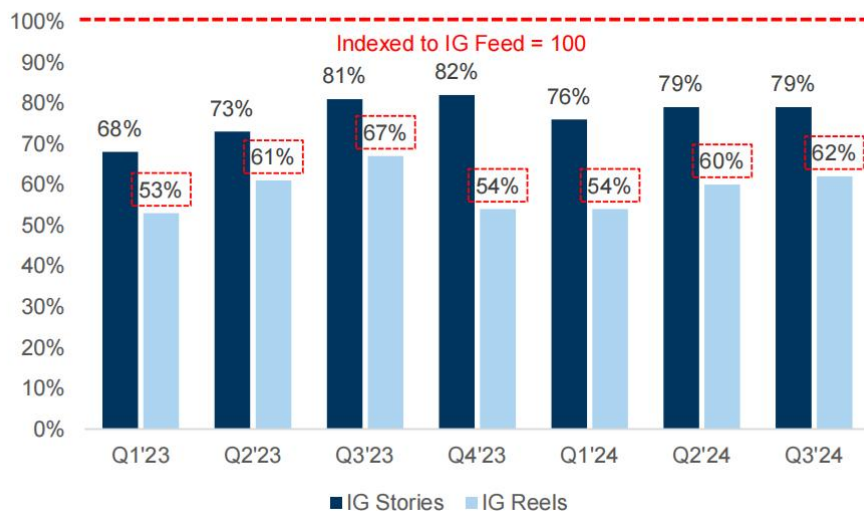
Reels has become a key pillar of Meta's long-term advertising strategy, driven by increasing user engagement, growing advertiser adoption, and the potential for higher ad pricing. While Reels has seen significant growth in user activity and time spent on the platform, its monetization path is still in its early stages. Advertisers are gradually adapting to the short-form video format, with more brands starting to invest in Reels ads. The introduction of Advantage+ AI has further optimized ad creatives, improving conversion rates and enhancing ad performance. However, Reels' CPM (cost per thousand impressions) remains approximately 38% lower than Facebook and Instagram Feed, indicating significant room for pricing growth.

Exhibit 1: % of US Ad Impressions on Instagram, by Ad Format
Q2'21-Q3'24



Currently, Reels accounts for only 19% of Instagram’s total ad impressions, whereas Stories account for over 60%. Over the next few years, Reels’ ad impressions are expected to align more closely with Stories, further driving revenue expansion. Financial forecasts indicate that Reels ad revenue will grow at a 59% CAGR from 2023 to 2026, reaching an estimated \$26 billion by 2026 and accounting for 12% of Meta’s total ad revenue. In the long term, Reels is expected to become Meta’s third-largest ad monetization channel, following Feed and Stories. As Meta continues to refine its advertising infrastructure and increase advertiser recognition of Reels’ effectiveness, the platform is well-positioned to capitalize on the industry shift toward short-form video content, strengthening its competitive advantage in digital advertising.

Exhibit 2: Average CPMs by Instagram Ad Format (Relative to Instagram Feed)
Q1'23-Q3'24



3.2 Advantage+

Advantage+ stands as a linchpin in Meta's advertising strategy, leveraging AI to revolutionize the digital advertising landscape. As Meta operates at the intersection of multiple industries, Advantage+ is a strategic asset that capitalizes on the trends of AI - powered ad optimization and the growing demand for efficient advertising solutions.

Meta's traditional advertising model primarily attracted large brands and corporate clients. However, Advantage+ has significantly expanded Meta's advertiser base. By targeting e - commerce, gaming, app promotion sectors, and SMBs, it has enabled smaller advertisers to enter the Meta ad ecosystem. As of December 2024, with over 1 million advertisers already using it and the number on the rise, Advantage+ is bridging the gap between Meta and a more diverse range of businesses. For SMBs, in

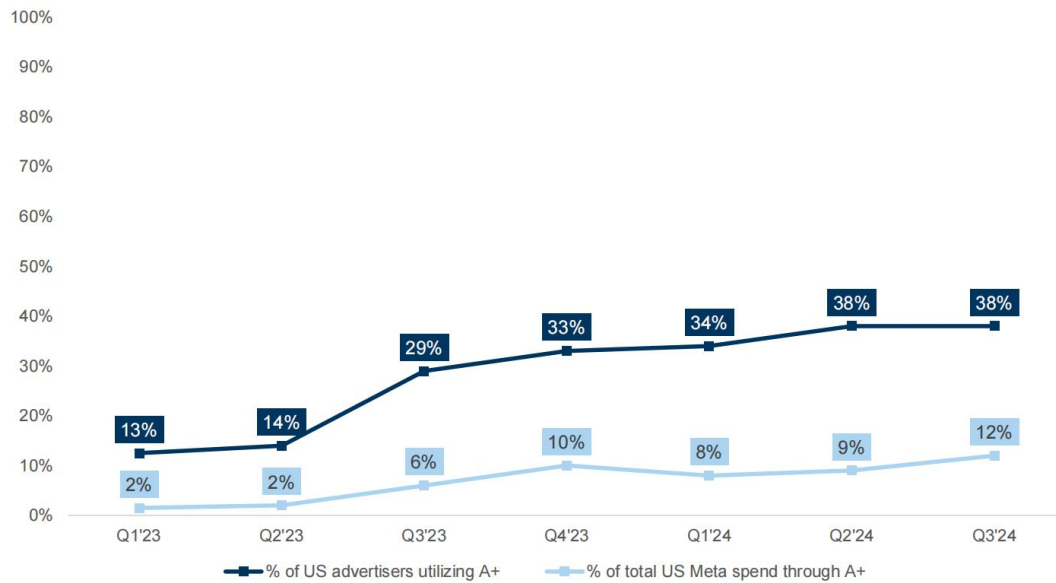
particular, it serves as a powerful tool to optimize ad budgets and precisely target their desired audiences, which was previously a challenge due to resource and technical constraints.

At the core of Advantage+'s value proposition is its ability to enhance ad performance. The AI - driven system analyzes real - time data to automatically optimize various aspects of ad campaigns, including target audiences, ad formats, and budget allocation. This real - time optimization has led to a remarkable increase in ad click - through rates (CTR). Advertisers using Advantage+ have witnessed an over 18% increase in ad conversion rates and a 20% reduction in costs. These performance improvements not only benefit advertisers but also make Meta's advertising platforms more attractive, strengthening its position in the highly competitive digital advertising market.

Looking ahead, Advantage+ is expected to play an even more crucial role in Meta's advertising business. As it is still in its early growth stage, widespread adoption is projected for 2025 - 2026. Goldman Sachs forecasts that this growth will drive Meta's ad revenue. With the continuous expansion of the user base and the increasing effectiveness of ads through Advantage+, Meta can capture a larger share of the digital advertising market. As more advertisers recognize the benefits of using Advantage+, they are likely to allocate more of their advertising budgets to Meta's platforms, thereby fueling the company's revenue growth.

Adapting to Market Trends: In an industry characterized by rapid technological advancements and evolving consumer behavior, Advantage+ positions Meta to adapt to future market trends. The AI - automation capabilities of Advantage+ align with the broader industry shift towards more intelligent and efficient advertising solutions. As competition intensifies in the digital advertising space, Meta's investment in Advantage+ allows it to stay ahead of the curve, offering advertisers a competitive edge. This, in turn, helps Meta retain its existing advertisers and attract new ones, ensuring the long - term sustainability and growth of its advertising business.

**Exhibit 4: % US Advertiser Adoption & Meta Spend on Advantage+
Q1 2023 – Q3 2024**



3.3 messaging Ads

Messaging ads are a crucial and rapidly evolving segment within Meta's advertising portfolio, leveraging the vast user bases of its instant messaging platforms to drive revenue growth.

Meta's ownership of globally dominant instant messaging applications like WhatsApp, Messenger, and Instagram DM forms the bedrock for its messaging ads initiative. With WhatsApp boasting over 2.5 billion monthly active users (MAU) globally, and similar large - scale user engagement on Messenger and Instagram DM, Meta has access to an extensive audience for advertising purposes. Currently, messaging ads are in the early stages of monetization. However, their potential is substantial, given the high user engagement levels on these platforms. Users are accustomed to communicating via these messaging apps, creating a natural environment for advertisers to reach them.

Click - to - Message Ads is a key revenue - generating mechanism. It enables advertisers to place ads that, when clicked, directly open a chat in either WhatsApp or Messenger. In the e - commerce industry, for example, this feature allows brands to immediately engage with potential customers. A clothing brand can use a click - to - Message ad to start a conversation with a user interested in its products, answer sizing questions, provide styling advice, and ultimately drive a purchase. In the customer service sector, companies can use these ads to quickly address customer inquiries, enhancing the customer experience and brand loyalty.

Through WhatsApp Business, businesses have the option to send personalized marketing messages to users. This form of messaging ad allows companies to target specific user segments with tailored content. For instance, a food delivery service can send exclusive discount codes or new menu item announcements to regular customers, encouraging repeat business.

Although still in the early stages of monetization, WhatsApp for Business holds significant promise. With its massive user base, there is ample room for growth. In the future, Meta plans to introduce more enterprise - level value - added services. This could include features such as advanced analytics for businesses to understand customer behavior better, or enhanced chatbot capabilities for more efficient customer service.

Exhibit 5: WhatsApp Indexed Monthly Active Users (US & Global)
iOS & Android; Indexed to Jan 2021 = 100

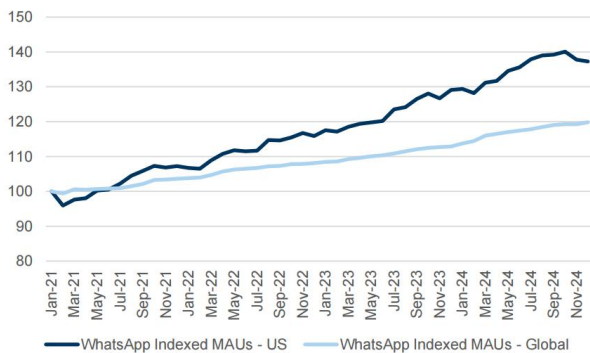
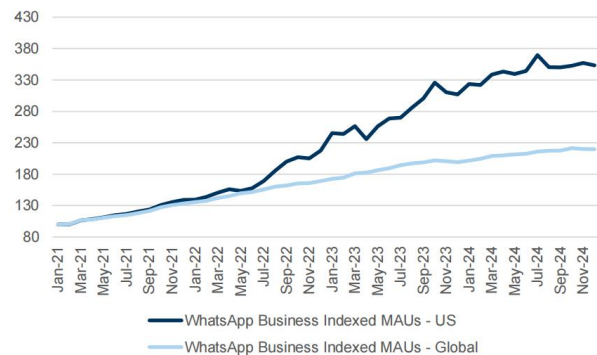
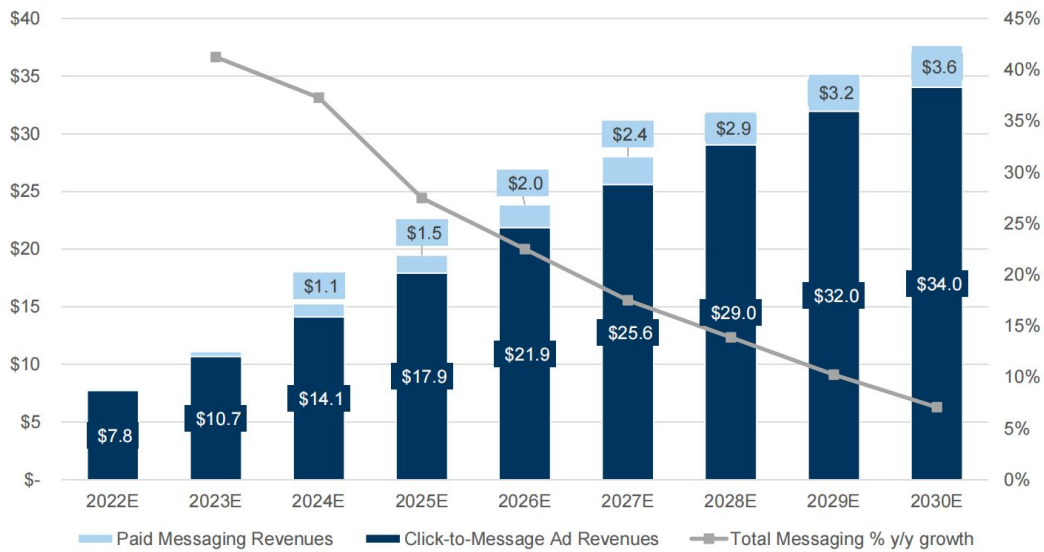


Exhibit 6: WhatsApp Business Indexed Monthly Active Users (US & Global)
iOS & Android; Indexed to Jan 2021 = 100



The future of messaging ads looks extremely promising for Meta. By 2026, messaging ads are expected to generate \$23.8 billion in revenue, growing at a compound annual growth rate (CAGR) of 29%. Over the next few years, Meta is likely to accelerate the monetization of WhatsApp for Business. This may involve increasing the proportion of business - to - consumer (B2C) ad business. As Meta refines its messaging ad strategies and continues to introduce new features, it aims to capture a larger share of the digital advertising market, capitalizing on the unique advantages of its messaging platforms. The high user engagement and the potential for personalized communication on these platforms make messaging ads a key growth driver for Meta's advertising business in the coming years.

Exhibit 7: GSe Meta Total Messaging (CTM + Paid Messaging) Revenues
\$bn, 2022-2030E



3.4 Reality Labs

Meta's Reality Labs division focuses on the research and development of virtual reality (VR), augmented reality (AR) and mixed reality (MR) technologies to advance the company's growth in the **Metaverse**. Meta's investment in Reality Labs has been steadily increasing, reflecting its commitment to future technologies. In 2024, Meta invested **\$19.9 billion** in Reality Labs. Since acquiring Oculus in 2014, Meta has invested over **\$80 billion** in VR and AR technologies. Meta's strategic goal is to drive the development of Metaverse through Reality Labs, providing immersive virtual experiences. Specifically, Meta plans to allocate 60-65% of its capital expenditures in 2025 to AI infrastructure, with the remainder focused on hardware and software development for Reality Labs.

At present, the main products of the Reality Labs division are: Ray-Ban Meta smart glasses and Quest series VR headsets.

1. Ray-Ban Meta Smart Glasses

Since its launch in September 2023, the sales of Ray-Ban Meta smart glasses have been steadily growing. By May 2024, global sales exceeded 1 million units, with annual shipments expected to surpass 1.5 million units in 2024. According to IDC data, global smart glasses sales in 2023 totaled 1.01 million units, with Ray-Ban Meta smart glasses capturing a significant share of that market. The Ray-Ban Meta smart glasses have gained consumer popularity due to their stylish design,

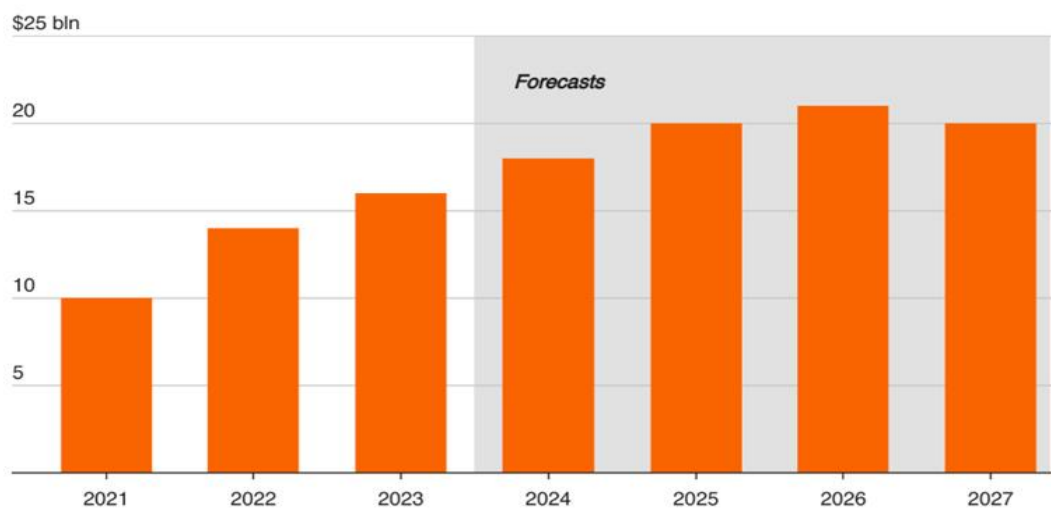
comfortable fit, and practical features. Compared to Apple's Vision Pro (priced at \$3500), Ray-Ban Meta smart glasses are priced around **\$300**, offering a significant price advantage.

2. Quest Series VR Headsets

The Quest series VR headsets have achieved remarkable success in the market. In Q4 2024, the Quest 3 and Quest 3S saw strong sales, driving Meta's growth in the VR market. According to IDC data, global VR headset shipments in 2023 totaled 7.6 million units, with the Quest series holding a significant market share. The Quest series VR headsets have a leading position in the market due to their high cost-performance ratio and rich content ecosystem. In October 2024, Meta launched the Quest 3S, priced at **\$299.99**, further lowering the purchase barrier for consumers.

Despite achieving a 40% sales growth in Reality Labs in 2024, the division continues to face significant losses. Since 2020, Reality Labs has accumulated losses exceeding \$50 billion. Reality Labs' revenue for the third quarter of 2024 was **\$270 million**, an increase of **29%** year-over-year. But the loss was **\$4.43 billion**. In the fourth quarter of 2024, Reality Labs' revenue reached **\$1.083 billion**, an increase of **1.12%** year-over-year. However, the loss also reached **\$4.967 billion**, expanding by about **6.97%** year-on-year. Reality Labs' full-year loss was **\$17.729 billion**, about 10% wider than a year earlier.

Meta's Reality Labs' operating loss is still rising



Source: Visible Alpha | K. Hamlin | Nov. 29, 2024

Reuters Breakingviews

The reasons for the loss of Meta's Reality Labs division can be mainly attributed to the following:

1. High R&D investment:

Virtual and augmented reality are extremely expensive to develop. The technology development, manufacturing and marketing of these products require huge capital investment. Meta's continued investment in hardware and software has significantly increased costs. In addition, the production cost of VR and AR devices is very high, especially for high-quality, immersive products, requiring advanced display technology, sensors, processors and other components. Even with the gradual increase in product sales, hardware production still requires a large capital investment. While these projects have long-term growth potential, they require significant capital expenditures in the short term and have not yet reached profitability levels.

2. Market demand is not fully mature

Consumer demand for VR and AR products is still growing. Although the virtual reality and augmented reality market has a lot of potential, the current consumer acceptance and market penetration are still in the early stages. Demand for VR and AR devices is still low among many consumers, resulting in sales of these products that cannot support the high R&D investment and production costs.

3. Long-term strategy

The commercialization of Metaverse and VR/AR technology requires a long period of technology accumulation and market education. Although Meta has invested heavily in these areas, the adoption and commercialization of these technologies often takes years, resulting in insufficient returns in the short term. Meta is positioning Reality Labs as a long-term strategy that aims to lead the future of the Internet by providing immersive experiences. However, such a strategy will take a longer time to bring substantial profits, and the current stage is still high investment, low return.

Meta plans to continue its investment in Reality Labs in 2025, with expected total capital expenditures **between \$60 billion and \$65 billion**. About **50%** of the funding will be directed towards wearable devices, such as AR and AI glasses, with the other half allocated to Metaverse technology development. Additionally, Meta is exploring AI-driven humanoid robot technologies, which will be developed as part of Reality Labs. The project aims to use existing AI models and sensor technologies to create robots for home tasks.

3.5 Meta AI

Meta AI is an artificial intelligence research and development unit established by Meta Corporation (Facebook) to drive innovation in AI technology and its application across Meta's platforms and services. Meta AI's research spans multiple fields, including natural language processing, computer vision, reinforcement learning, autonomous driving, robotics, and more. Meta AI is not only committed to developing new AI algorithms, but also focuses on optimizing existing technologies and improving the intelligence level of Meta products, such as advertising, content recommendation, and user experience on social platforms.

Llama AI is a series of Large Language Models (LLMs) from Meta AI. Llama (Large Language Model Meta AI) is an important research achievement of Meta in the field of natural language processing (NLP), which is used to process and generate text, understand language, and answer questions. The Llama model includes several versions, such as Llama 2 and the upcoming Llama 4. They aim to compete with other language models, such as OpenAI's GPT family, and provide powerful capabilities in natural language processing tasks.

Llama 2 series adopts open-source strategy, Meta hopes to obtain more feedback from developers and researchers through open source, and promote the continuous optimization of the model. The open-source nature of the Llama 2 model has enabled Meta to gain broad community support in the NLP field, increasing the application range and validity of its model. Llama 2, released in 2023, is the second generation of Meta's large-scale language model, employing more advanced training data and algorithms than previous versions.

Llama 4, scheduled for release in early 2025, is expected to feature more computing power than Llama 3.1 and extend multimodal capabilities. This version is expected to be used in more areas such as automated content generation, speech generation and so on.

For the future development of Meta AI, Meta AI will not only be used for internal optimization of Meta platform, but also play an important role in Meta universe project. AI technologies in these projects help enhance the user experience, increase immersion, and improve interactivity. The company expects to promote the further integration of metaverse and VR through Meta AI.

For the future development of Llama AI, with the release of Llama 4, Meta expects to further expand the multimodal capabilities of its AI models (such as simultaneous processing of text, speech, and image information). This will enable Llama AI to handle more complex tasks, such as

comprehensive analysis of data in multiple input forms, and provide more comprehensive solutions. Meta aligns Llama AI with other companies competing in NLP technology and strives to become one of the leaders in natural language processing.

3.6 Horizon Worlds

Horizon Worlds is a virtual reality social platform launched by Meta to build an immersive meta-universe experience. Horizon Worlds officially launched in the United States and Canada in December 2021, initially limited to users 18 and older. In July 2024, Meta announced that Horizon Worlds will officially support both web and mobile, broadening access for users. In February 2022, Meta Chief Product Officer Chris Cox said Horizon Worlds' monthly active users had grown tenfold to 300,000 since launching in December 2021. However, it was reported in October 2022 that Horizon Worlds' monthly active users had dropped to less than 200,000. There are three main functions of the current platform:

User Generated Content: Horizon Worlds allows users to create custom virtual worlds and games, providing a wealth of creative tools and encouraging users to be creative.

Social interaction: The platform enables users to interact in the form of avatars and participate in multiplayer games, social events and virtual gatherings to enhance the social experience.

Cross-platform support: Starting July 2024, Horizon Worlds will support both web and mobile, allowing users to access and play on different devices.

As for the future development of horizon Worlds, although Horizon Worlds has made progress in user growth, it also faces quality and user retention challenges. There are reports that some Meta employees have expressed concerns about the quality of the platform and even rarely use it. Internal documents from October 2022 show that Horizon Worlds had less than 200,000 monthly active users, short of Meta's target of 500,000, and that retention was on a downward trend. However, Horizon Worlds serves as an important layout for Meta in the metaverse realm. Meta plans to continue investing in and improving Horizon Worlds to enhance the user experience and expand the user base. As technology advances and user needs change, Horizon Worlds is expected to become an even more attractive virtual social platform in the future.

4. Stock valuation & Investment Analysis

4.1 Stock Valuation

\$mm, 2022-2030E

	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenues	\$ 116,609	\$ 134,901	\$ 163,376	\$ 190,308	\$ 216,493	\$ 241,594	\$ 265,473	\$ 287,352	\$ 308,269
% y/y growth	-1.1%	15.7%	21.1%	16.5%	13.8%	11.6%	9.9%	8.2%	7.3%
Total Capex	\$ 31,186	\$ 27,045	\$ 39,372	\$ 60,209	\$ 70,577	\$ 76,344	\$ 80,438	\$ 83,907	\$ 86,624
% y/y growth	68.0%	-13.3%	45.6%	52.9%	17.2%	8.2%	5.4%	4.3%	3.2%
% capital intensity	26.7%	20.0%	24.1%	31.6%	32.6%	31.6%	30.3%	29.2%	28.1%
Total GAAP Expenses	\$ 87,664	\$ 88,150	\$ 97,244	\$ 116,110	\$ 134,575	\$ 151,421	\$ 167,186	\$ 180,090	\$ 190,935
% y/y growth	23.2%	0.6%	10.3%	19.4%	15.9%	12.5%	10.4%	7.7%	6.0%
Total D&A	\$ 8,686	\$ 11,177	\$ 14,677	\$ 22,269	\$ 31,271	\$ 39,426	\$ 47,322	\$ 52,862	\$ 56,163
% y/y growth	9.0%	28.7%	31.3%	51.7%	40.4%	26.1%	20.0%	11.7%	6.2%
Total GAAP Expenses (ex-D&A and one-timers)*	\$ 74,780	\$ 71,547	\$ 81,167	\$ 93,841	\$ 103,304	\$ 111,995	\$ 119,864	\$ 127,228	\$ 134,772
% y/y growth	18.3%	-4.3%	13.4%	15.6%	10.1%	8.4%	7.0%	6.1%	5.9%

Goldman Sachs recently raised Meta Platforms Inc.'s 12-month target price from \$630 to \$688, reflecting a 9.2% increase. This adjustment is based on several valuation metrics and growth drivers. The expected price-to-earnings (P/E) ratio for 2026 is 22x, which is slightly above the S&P 500's approximate 21.5x. Currently, Meta's P/E ratio is lower than its peak of 35x in 2021 but higher than its low of 14x in 2022. The enterprise value to EBITDA (EV/EBITDA) ratio stands at 22x, suggesting that Meta is within a reasonable valuation range.

Earnings growth is a crucial factor for Meta's stock price. The anticipated GAAP earnings per share (EPS) for 2025 is \$25.11, showing an 11.1% year-over-year growth, while the 2026 GAAP EPS is expected to be \$27.69, with a 10.3% year-over-year growth. Over the next two years, the primary investment logic for Meta is centered on earnings growth rather than just valuation expansion. The stock's reasonable valuation, combined with future earnings growth expectations, is driving the stock price. However, there are short-term volatility risks associated with AI-related capital expenditures and regulatory factors.

Exhibit 20: META Valuation Analysis

mm, except per share data

Scenario Analysis			
	Downside	Base	Upside
Valuation	\$ 454	\$ 688	\$ 894
% upside/downside	-26%	12%	45%
GAAP EBITDA (NTM)	\$ 76,807	\$ 91,742	\$ 104,865
EBITDA Margin %	46.0%	50.5%	53.5%
GAAP EBITDA (NTM + 1 year)	\$ 89,243	\$ 107,219	\$ 126,297
EBITDA Margin %	47.5%	51.4%	55.0%
EV / GAAP EBITDA	16.0x	22.0x	24.0x
EBITDA CAGR	7.9%	18.3%	28.4%
EV / GAAP EBITDA to Growth	2.02x	1.20x	0.85x
Enterprise Value	\$ 1,427,892	\$ 2,358,820	\$ 3,031,139
FCF-SBC (NTM + 4 years)	\$ 62,376	\$ 67,267	\$ 76,285
FCF % of Sales	22.2%	23.9%	27.2%
EV / FCF-SBC	20.0x	23.0x	26.0x
FCF-SBC CAGR	13.2%	20.0%	21.1%
EV / FCF-SBC-to-Growth	1.51x	1.15x	1.23x
Discount Rate	15.0%	12.0%	10.0%
Discount Period (Years)	3	3	3
Enterprise Value (NTM + 3 years)	\$ 1,247,529	\$ 1,547,148	\$ 1,983,403
Discounted Enterprise Value	\$ 820,271	\$ 1,101,230	\$ 1,490,160
Weightings			
EV derived from GAAP EBITDA	50%	50%	50%
EV derived from (FCF-SBC)	50%	50%	50%
Enterprise Value	\$ 1,124,081	\$ 1,730,025	\$ 2,260,649
Capital Structure Adjustments			
Adjusted Net Debt - NTM Ending	\$ (42,920)	\$ (42,920)	\$ (42,920)
Dividends	\$ 5,035	\$ 5,035	\$ 5,035
Adjusted Shares Outstanding - NTM Ending	2,584	2,584	2,584

4.2 Investment Risk Analysis

The investment risk analysis for Meta Platforms Inc. highlights several key areas of concern that could impact the company's financial performance and market position.

Firstly, the ad market competition is intensifying, with platforms like YouTube Shorts and Snapchat experiencing significant growth. This expansion poses a threat to Meta's ad market share, as these competitors could attract advertisers away from Meta's platforms. Additionally, the monetization of Reels has not yet reached the same level as Feed and Stories, which presents a challenge for Meta's ad revenue growth. The limited earnings potential from Reels could hinder the company's ability to increase its overall ad revenue.

Secondly, Meta's substantial investment in artificial intelligence (AI) research and development presents both opportunities and risks. While AI advancements could drive future growth, the rapid increase in capital expenditure, projected to rise by 63% in 2025, may suppress profit margins in the short term. Furthermore, AI initiatives such as Llama AI and AI Agents are not yet profitable, and the market may not immediately recognize their value. This lack of short-term profitability could negatively impact Meta's financial performance and market perception.

Regulatory risks also pose a significant challenge for Meta. Stricter AI and data privacy regulations in the European Union and the United States could increase compliance costs, affecting the company's profitability and operational flexibility. These regulations may require Meta to invest more in compliance measures, which could divert resources from other strategic initiatives.

Lastly, the macroeconomic environment is a critical factor to consider. A slowdown in the global economy could lead to reduced corporate marketing budgets, directly impacting Meta's ad revenue growth. Since Meta's ad revenue is closely tied to corporate advertising spending, any reduction in marketing budgets could result in lower ad revenues for the company.

Although Meta Platforms Inc. has significant growth potential, it also faces several risks that could impact its financial performance. The competitive ad market, challenges in Reels monetization, substantial AI investments, regulatory risks, and potential macroeconomic downturns are all factors that investors should carefully consider.

4.3 Market Response



Meta Platforms Inc. is actively pursuing several market response strategies to enhance its business performance and shareholder value. One key area of focus is the optimization of AI monetization. By continuously refining its AI monetization paths, Meta aims to improve the return on investment (ROI) of its advertising services. This strategy is designed to make Meta's platforms more attractive to advertisers, thereby potentially increasing ad revenue.

Another significant strategy involves accelerating the profitability of its Reality Labs business. This could be achieved through various means such as cost-cutting measures, improved product strategies, or the introduction of new revenue-generating models within the virtual/augmented reality and metaverse-related segments.

In addition, Meta is strengthening its cooperation with governments and regulatory bodies. This effort is aimed at reducing policy risks by ensuring compliance and influencing regulatory development in a more favorable direction.

Exhibit 8: HundredX User Satisfaction % - Meta AI vs. Comp Group
 % of users who rated 4 or 5 (out of 5 stars)

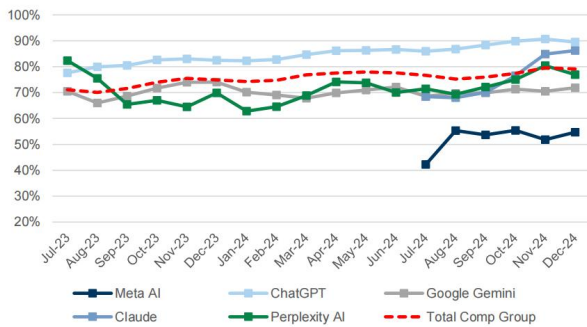
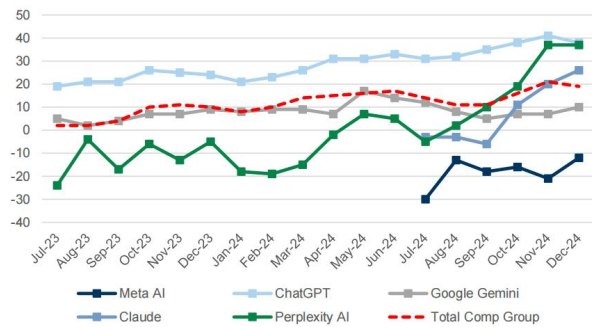


Exhibit 9: HundredX Net Promoter Score (NPS) - Meta AI vs. Comp Group
 Scale of (100) to 100



In conclusion: Meta stock retains long-term investment value. However, in the short term, investors need to closely monitor the progress of AI monetization and regulatory policies. If Meta's ad revenue continues to grow, the stock price is expected to rise further. Nevertheless, investors should be aware of the short-term risk factors that could potentially impact the stock price and the company's financial performance.

