

Facebook (FB)

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FACEBOOK

Find Me Value Investment Research

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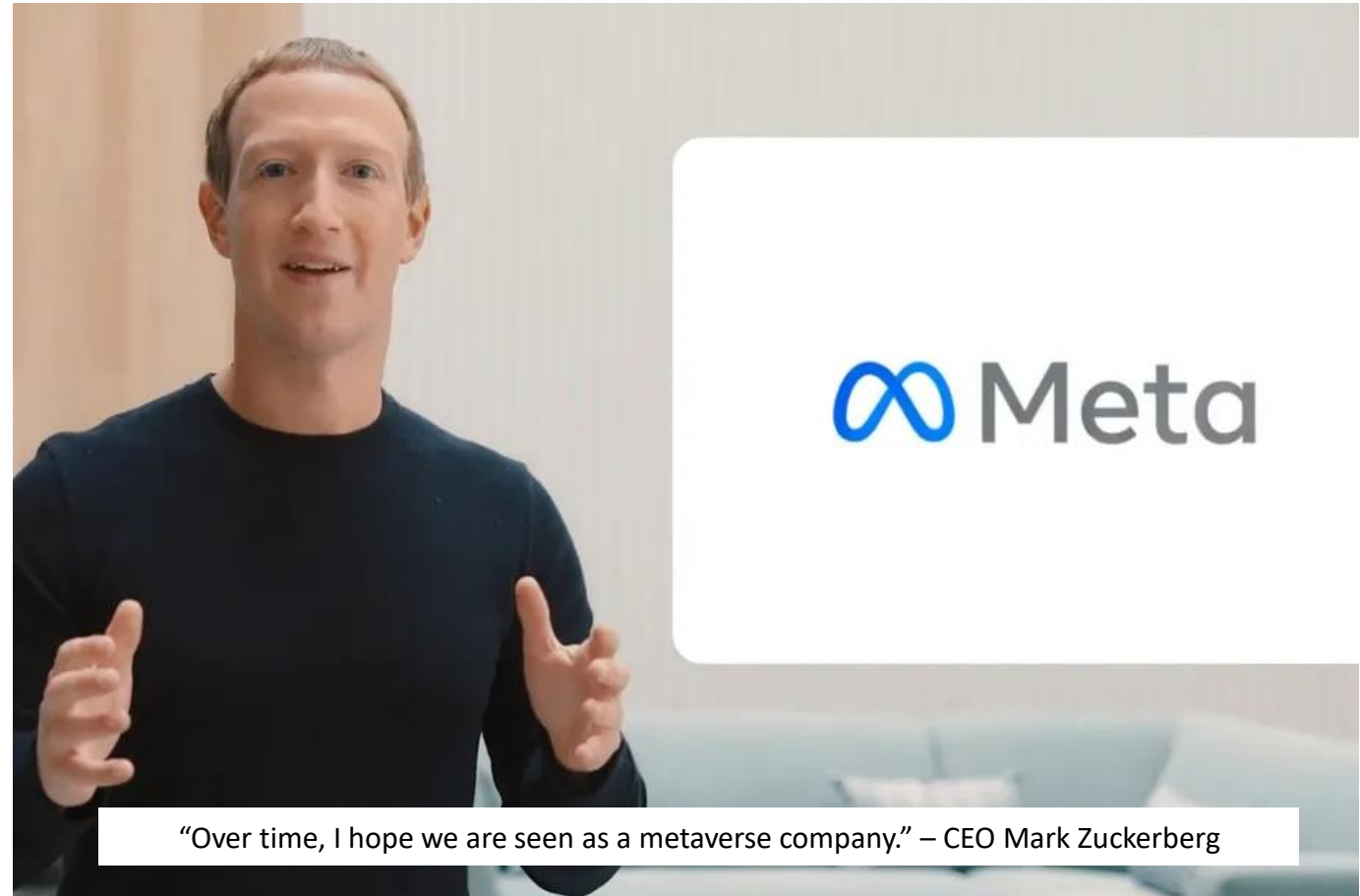
Snapshot

Facebook (FB)



Facebook Inc. (FB) = “Meta Platforms” (M^{TRIAL VERSION}VRS)

- It was first reported October 19, 2021 that Facebook was going to rebrand itself to signify their efforts going forward to be more than a social media company and focus on building the metaverse
- On October 28th, Facebook announced the new brand “Meta”, and will begin trading under a new stock symbol (M^{TRIAL VERSION}VRS) on Dec. 1, 2021. They will have new segment reporting starting in Q4 2021.
- The majority of this slide deck was created prior to this rebranding and will refer to “Meta” as “Facebook”.
- Prior to the last few months, Facebook was a pure play social media digital advertising business, with ~98% of revenues from digital advertising.
- Over the next 3-5 years, I expect FB to use the cash flow generated by its core social platforms and reinvest in the AR / VR/ Metaverse concept. It’s difficult to know the potential revenues, margin, the timing, how successful or not these substantial projects will be.
- **Buying shares in FB going forward is a bet on the vision of Mark Zuckerberg and building out the Metaverse.**



Facebook, Inc. (FB)

- ~98% of Facebook's revenue comes from advertising, with ~95%+ of this coming from ad placements sold to markets for mobile devices
- FB's app family (Facebook, Instagram, WhatsApp, Messenger) are consistently the most downloaded and used apps in the world, and with over 3.5 billion people utilizing their family of apps each month, the company has tremendous scale and reach
- With 14 million+ advertisers across the platforms that FB can target based on age, gender, location, interests, friends, and so on, FB continues to attract an increasing amount of advertising spend as their ability to leverage their data provides strong marketing spend ROI, especially compared to traditional media advertising
- FB continues to invest in people (over 68,000 employees, up from 30,275 3 years ago), data centers for the tremendous global usage of their apps, and in projects they expect to yield strong returns in the future (Oculus, VR/AR).
- Facebook has 5 primary business components:
 - **Facebook "Blue"** – the largest platform and revenue contributor(~70% revs), this social media platform has ~1.9bn MAU, 10m advertisers, and marketers engage with users primarily on the News Feed (57% ad revenue) where content is algorithmically ranked and tailored to each person on the service.
 - **Instagram** – Acquired for \$1bn in 2012 as a photo sharing app, now has >1 bn MAU as well, and generates \$25-\$30bn in revenue (~28% revs)
 - **WhatsApp** – An encrypted global messaging service acquired for \$19bn in 2014, is the top messaging service globally with >2bn MAU but generates little to no current revenue
 - **Messenger** – A messaging service spawned from Facebook when FB was transitioning its apps to mobile. Currently has ~1.3bn+ MAU
 - **Facebook Reality Labs** – the new segment will house Oculus VR / AR / Metaverse

Snapshot: FB / MVRS

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Meta Platforms Inc. FB / MVRS (formerly Facebook, Inc. "FB")

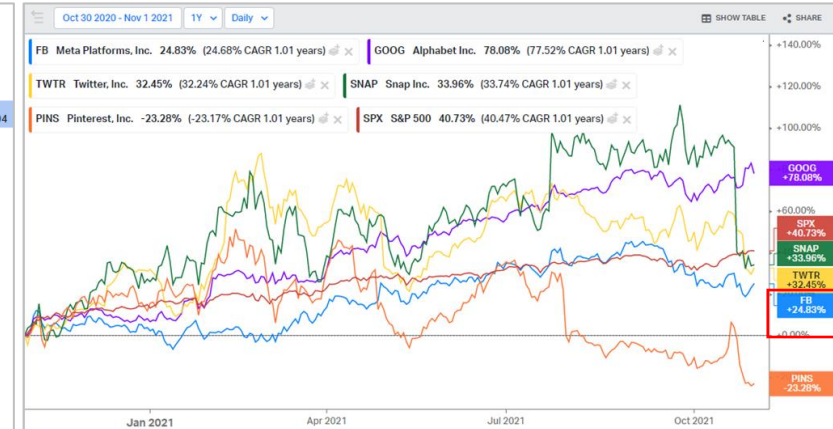
Stock Price	\$	330.00	
Shares O/S		2,827	<i>*est. as of 10/25/21</i>
Market Cap	\$	932,837	
Cash & Equiv.	\$	14,496	<i>(cash, money mkt, CDs)</i>
Marketable Securities	\$	43,579	<i>(US debt < 5 yr, Corp bonds)</i>
LT Equity Investments	\$	6,758	<i>(mostly Jio Platforms India)</i>
Debt	\$	-	
EV	\$	868,004	

	TTM	EV (x)	Mkt Cap (x)
EBITDA	\$ 54,759	15.9 x	
EBIT	\$ 46,943	18.5 x	
FCFF	\$ 36,949	23.5 x	
Net Income	\$ 40,304		23.1 x
FCFE	\$ 35,810		26.0 x

	E 2022	EV (x)	Mkt Cap (x)
EBITDA	\$ 60,500	14.3 x	
EBIT	\$ 51,000	17.0 x	
FCFF (EBITDA - PP&E)	\$ 29,000	29.9 x	
Net Income	\$ 43,350		21.5 x
FCFE	\$ 21,350		43.7 x



Facebook, Inc. (FB) – Stock Chart



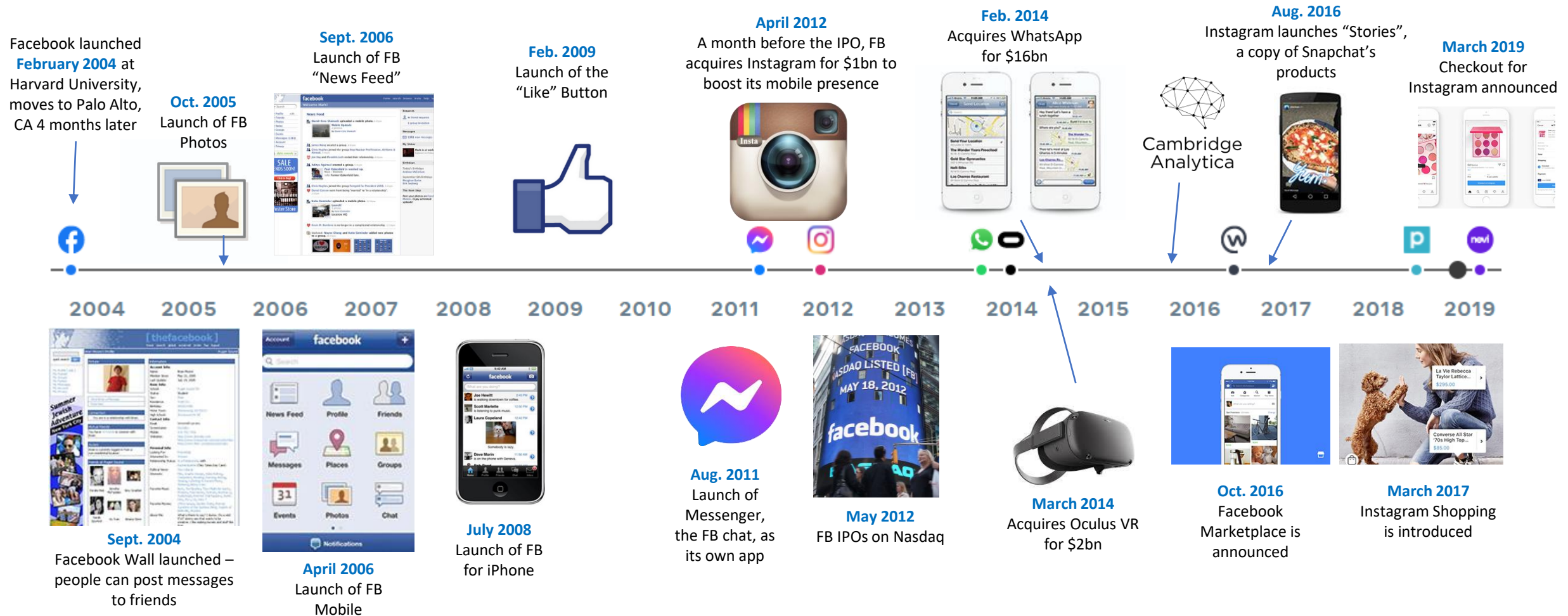
Facebook, Inc. (FB) – Stock Chart vs. Comps (1 Year)

Comps Table

Company	Ticker	Share Price	Enterprise Value (\$bn)	Stock Performance (%)				CAGR (%)	
				YTD	1 Yr.	3 Yr.	5 Yr.	3 Yr.	5 Yr.
Facebook Inc.	FB	\$ 330.00	\$ 868.00	20%	25%	116%	151%	229%	20%
Alphabet, Inc.	GOOG	\$ 2,886.00	\$ 1,952.00	65%	78%	168%	268%	39%	30%
Twitter, Inc.	TWTR	\$ 54.80	\$ 43.70	1%	32%	57%	205%	16%	25%
Snap, Inc.	SNAP	\$ 52.80	\$ 88.40	5%	34%	698%	116%	99%	17%
Pinterest, Inc.	PINS	\$ 45.20	\$ 29.20	-31%	-23%	85%	85%	23%	13%
S&P 500	SPX	\$ 4,602.00		22%	41%	70%	116%	19%	17%

Timeline of Major Company Events (*pre- “MVRs”)

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Investment Case

- Secular Tailwind in Digital Ad Spend
- Social Media Ad Spend Growing in Relation to Digital Ad Spend
- Resiliency in Revenue Due to mix of Large advertisers and SMB
- FB's global scale across its platforms and consumer data will continue to provide advertisers strong ROI, which will keep a majority of their advertisers coming back despite any negative publicity. Facebook offers above average ROAS and for performance-based advertisers, that's what matters most.
- Shops, Instagram Shopping, Facebook Marketplace and other social commerce initiatives will: (a) recapture data that has been disrupted with ATT IDFA, (b) provide better measurement for their advertisers, (c) could be an additional revenue driver with the 5% payment fee on sold items transacted natively
- Segment reporting changes beginning Q4/2021 will highlight the strength of the core advertising business margins, FCF profile, which hasn't been transparent the last couple of years due to investments in Oculus VR / AR
- Perception around Facebook's decline is overstated; 85% of DAU's are still growing.
- Messenger and WhatsApp are global leader in messaging, and with messaging becoming more instrumental for business communications to customers, I expect more integration for solutions for businesses utilizing these services along with FB's shopping and payment offerings
- **Long-term: Zuckerberg's vision for the Metaverse, and him accelerating its 'access', coming to fruition. It's a bet on Zuckerberg.**

Investment Case

- Facebook's social platforms are at the forefront of multiple secular tailwinds, specifically the growth of digital advertising and social media advertising as a sub-category due to the levels of engagement, user scale, and effectiveness of using data/algorithms to target ads
- Facebook Blue generates ~70% of the ad revenues, and most of the negative focus is on this social network (versus Instagram, Messenger, WhatsApp). Still, user counts in developed markets are stable, users are still growing in emerging markets, and time spent on the platform still leads all other social networks. With the ability to target would-be customers effectively, Facebook is utilized by businesses of all size, especially smaller businesses without the resources that larger corporations have. They have tremendous 1st party data, and their algorithms to target adds are very efficient, leading to high return on ad spend for advertisers, so advertisers continue to use them.
- Instagram generates about 30% of ad revenues but is growing at a faster rate than core-Facebook. Furthermore, what Facebook isn't as strong in, Instagram makes up for it – they offer better shopping experiences for brands and connect with younger audiences, whereas Facebook is used by more people 24+ in age. In the next couple of years, Instagram will reach >40% of total ad revenues
- WhatsApp and Messenger generate very little revenues but will evolve to more enterprise solutions as the platforms shift to more shopping, payments, and business-oriented solutions. Furthermore, I could see WhatsApp working alongside Oculus on the enterprise side. (SAAS?)
- Oculus and WhatsApp are money-losing businesses at this point. Some estimates are that Oculus will lose ~\$6bn in 2021 based on their investments in VR/ hardware / AR/ 10,000 employees / Metaverse. These investments lower company-wide margins, but don't affect the profitability of the core-social networks Facebook Blue and Instagram.

Investment Case

- Updated 10/28/2021. With Facebook re-branding as “Meta Platforms Inc.”, there is potential that they are trying to disassociate themselves from the negativity surrounding Facebook Blue, which is also tied to their corporate name “Facebook”, despite having multiple revenue drivers beyond just Facebook Blue.
- Going forward, the story will be less and less about “Meta” being a social media digital advertising company, and more about the success of the buildout of VR / AR / Metaverse projects.
- The social platforms will be completely subsidizing the investments in these projects, and the incremental costs will be \$10bn+ each year, at a minimum, in what appears to be areas that have uncertain success-rates and unknown economics. The move from desktop → dumbphone → smartphone and the evolution since then seemed natural, despite at the time some of the products and capabilities having a sense of “wow” factor. The Metaverse, in my opinion, seems like it will be more forced upon consumers.
- Facebook has discussed they want to accelerate bringing the Metaverse to people; it’s not as if the demand is existing currently for what they are trying to build. It is there in pockets, and some tailwinds as a result of COVID-19 helped, but largely they are trying to create the demand which may / may not be there.
- The future of Meta is no longer how well Facebook Blue and Instagram are doing, and the untapped potential of WhatsApp. It is “are these investments in Facebook Reality Labs justified from an investors standpoint?” **The bet really is on Mark Zuckerberg being “right” about this vision he has.**
- *I assume in this slide deck that readers know the story of Facebook and CEO / Founder Mark Zuckerberg. If you would like additional material surrounding him or his ownership stake in FB, please contact me.*

Overview

Facebook (FB)



Value Proposition

“Digital advertising gets a 25% better return than TV with ads. GOOG and FB ads do especially well, generating 40% higher returns than the average digital ad.”

- Mondelez International (March 2021, WSJ)

Facebook, Inc. (FB)

- Facebook, Inc. is a company that has ~3 billion global users and the ability to utilize the incredible amounts of data it has on those customers by selling advertising on its platforms to over 14 million advertisers, generating in excess of \$100bn in advertising revenue and ~\$45bn in operating income.
- The primary social platforms that are monetized are Facebook Blue (~60% ad revenues) and Instagram (~40% ad revenues), which currently operate under a business model of engaging users via different up-to-date news feeds of the users they follow, as well as short and longer form videos, and selling ad space alongside these features. I believe Facebook is preparing for its next leg up which is to utilize the data across all platforms (including Messenger, WhatsApp, Oculus, etc.) to build “super social platforms” which are highly engaging and have vertical capabilities such as shopping, gaming, dating, advertising, payments, messaging, etc.
- Facebook operates within the confines of the ~\$650 billion global ad spending TAM, of which about \$375bn is digital. That pie was already taking market share, as well as adding incremental ad dollars to the total, and it is estimated that the digital ad market will grow to above \$600bn by 2023. COVID protocols accelerated the digital trends, especially for small businesses that needed an online presence in order to survive; many of them turned to GOOG and FB. In 2020, GOOG and FB combined for \$230bn in ad revenue.
 - GOOG has about 75% market share of global search revenues, consistent and growing slightly each year
 - FB has about 82% market share of social media ad revenues, also consistent and growing each year slightly
- Facebook is well positioned, due to the scale, reach, plethora of consumer data, diversity of its advertisers, and ability to attract users across all demographics due to having both Facebook Blue and Instagram.
- The next immediate leg of growth comes in the form of expanding commerce across all their platforms, which they are in the process of doing.

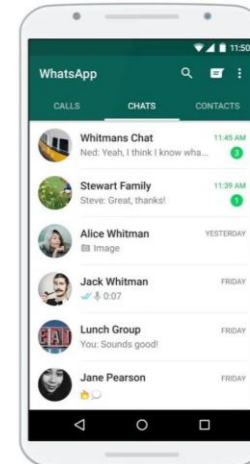
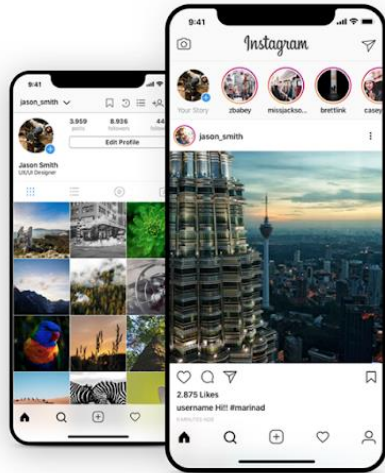
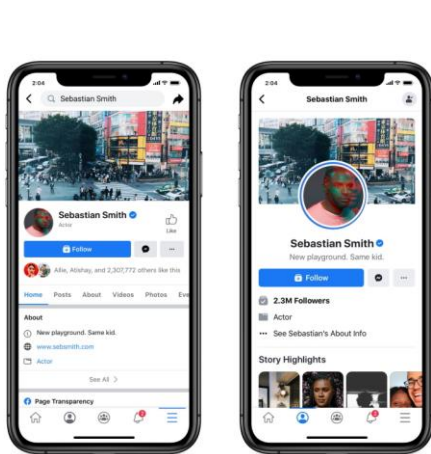
The Good and the Bad of Facebook

We talk about the good and the bad of our work often. I want to talk about the ugly. We connect people. That can be good if they make it positive. Maybe someone finds love. Maybe it even saves the life of someone on the brink of suicide. So we connect more people That can be bad if they make it negative. Maybe it costs a life by exposing someone to bullies. Maybe someone dies in a terrorist attack coordinated on our tools. And still we connect people. The ugly truth is that we believe in connecting people so deeply that anything that allows us to connect more people more often is *de facto* good. It is perhaps the only area where the metrics do tell the true story as far as we are concerned. That isn't something we are doing for ourselves. Or for our stock price (ha!). It is literally just what we do. We connect people. Period. That's why all the work we do in growth is justified. All the questionable contact importing practices. All the subtle language that helps people stay searchable by friends. All of the work we do to bring more communication in. The work we will likely have to do in China some day. All of it. The natural state of the world is not connected. It is not unified. It is fragmented by borders, languages, and increasingly by different products. The best products don't win. The ones everyone use win. I know a lot of people don't want to hear this. Most of us have the luxury of working in the warm glow of building products consumers love. But make no mistake, growth tactics are how we got here. If you joined the company because it is doing great work, that's why we get to do that great work. We do have great products, but we still wouldn't be half our size without pushing the envelope on growth. Nothing makes Facebook as valuable as having your friends on it, and no product decisions have gotten as many friends on as the ones made in growth. Not photo tagging. Not news feed. Not messenger. Nothing. In almost all of our work, we have to answer hard questions about what we believe. We have to justify the metrics and make sure they aren't losing out on a bigger picture. But connecting people. That's our imperative. Because that's what we do. We connect people.

- Andrew Bosworth, Facebook's CTO, an internal memo in 2016; h/t Stratechery (any emphasis is mine)

Facebook

- Facebook is 4 main social “platforms” that have tremendous global reach and usage, with almost all revenues come from selling ad space to advertisers. The only exception is the VR/AR/Oculus/Metaverse business that is currently monetized via selling Oculus VR headsets.
- The businesses are successful as they have positive network effects, driven by having user created content that keeps users returning to the platforms often.



End of Trial

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