

Meta Platforms (META US)

FUNDAMENTAL VIEW ¹

As of 07 Feb 2024

- We continue to be encouraged by the underlying momentum in the Family of Apps business, particularly the strong revenue guidance for 1Q24 which implies an acceleration to 29% YoY growth in constant currency at the high-end. Credit metrics are rock solid with 0.3x gross leverage and \$47 bn net cash.
- We continue to expect Meta to be a regular/annual issuer to fund its shareholder returns and big investments in AI and metaverse, although our best guess is this will be in 2H24 given its increased cash balance and improved FCF generation. Longer term, we expect Meta to adhere to its previously communicated financial policy of maintaining a positive or neutral cash balance.

RISKS & CATALYSTS

As of 07 Feb 2024

- In December 2020, the FTC filed a lawsuit against Meta targeting its acquisitions of Instagram and Whatsapp. If Meta is forced to unwind prior acquisitions, this would be a credit negative given reduced scale and diversification.
- Meta's Facebook and Instagram are exposed to rising competition from TikTok and other social media platforms. Meta has cloned TikTok's short-form video with Reels. The US has threatened to ban TikTok unless its Chinese owners divest its stake.
- Meta's business model relies almost entirely on user-generated content. As such, there are risks related to customer privacy (e.g., Cambridge Analytica data scandal in 2018) and regulatory changes (e.g., Section 230 protections).
- In October 2022, activist Altimeter Capital wrote a letter to Zuck and Board although it was on the friendly-side of activism and some suggestions have already been implemented.

CREDIT QUALITY SCORE (CQS)²

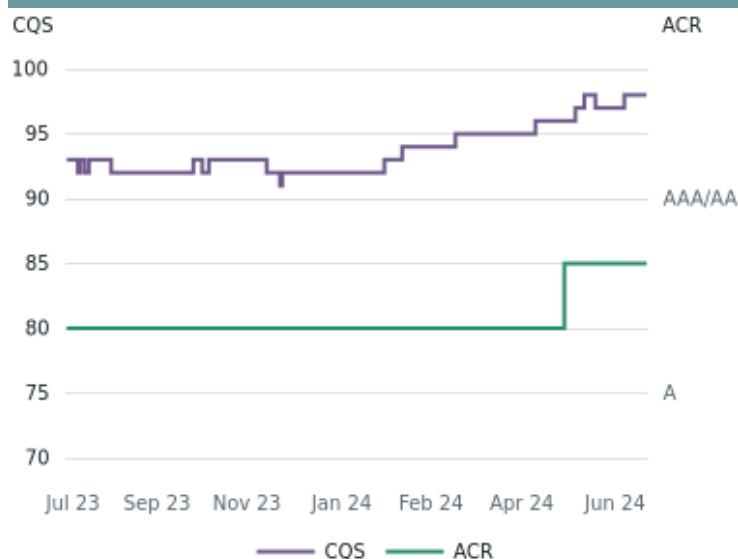
As of 21 Jun 2024

CURRENT CQS

98

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 07 Feb 2024

\$ MN	2019	2020	2021	2022	LTM 4Q23
Revenue YoY %	26.6%	21.6%	37.2%	(1.1%)	15.7%
EBITDA	34,562	46,069	63,882	49,622	71,955
EBITDA Margin	48.9%	53.6%	54.2%	42.6%	53.3%
CapEx % of Sales	22.1%	18.3%	16.3%	27.5%	20.8%
Sh. Ret. % of CFO-CapEx	20%	27%	116%	152%	46%
Net Debt	(54,855)	(61,954)	(47,998)	(30,815)	(47,018)
Gross Leverage	0.0x	0.0x	0.0x	0.2x	0.3x
EV / EBITDA	15.5x	15.8x	14.0x	5.8x	12.3x

BUSINESS DESCRIPTION

As of 07 Feb 2024

- Meta Platforms is the largest social networking company in the world. Meta generates substantially all of its revenue from advertising which includes Facebook, Instagram, Messenger, and third-party affiliated websites or mobile applications.
- In 4Q23, Family of Apps was 97% of revenue (96.5% from advertising and 0.8% from other) and Reality Labs was 3% of revenue. Reality Labs generated \$16.1 bn in operating losses during LTM 4Q23 as the company is investing heavily in the metaverse.
- Total MAUs and DAUs are 3,065 mn and 2,110 mn respectively at 4Q23. While US & Canada have the lowest number of users, they generate higher revenue than other regions given significantly higher ARPU. Revenue is 46% from US & Canada, 24% from Europe, 19% from Asia Pacific, and 11% from Rest of World.
- Meta is headquartered in Menlo Park, California. Employee headcount was 67.3k at 4Q23.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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