



# Facebook Stock Crashed 58%: BUY or SELL?

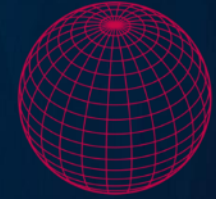
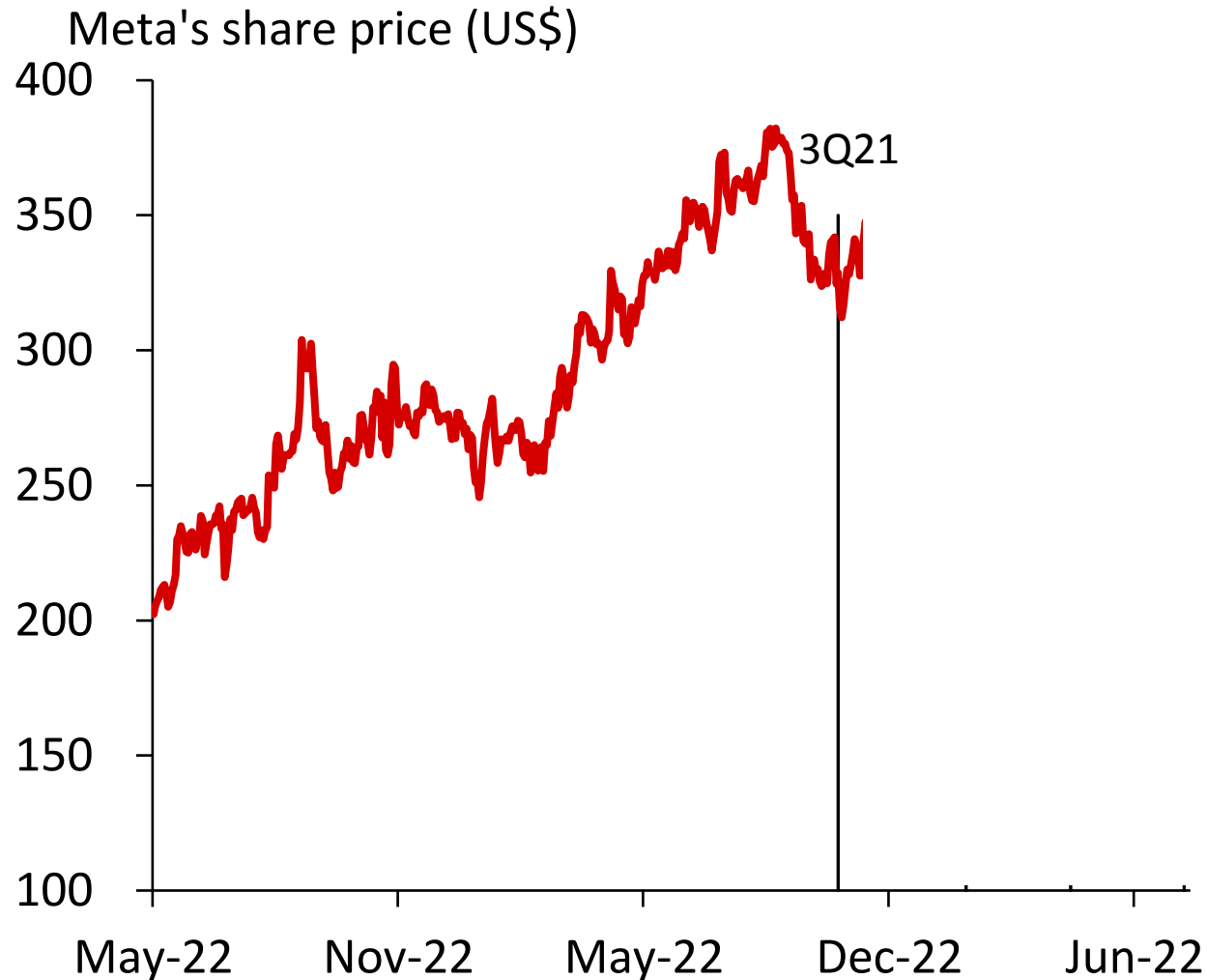
What's interesting  
about Meta is that it  
trades at a **PE ratio  
of 13x**



**Valuation Master Class**



# The rise and fall of Meta's stock price



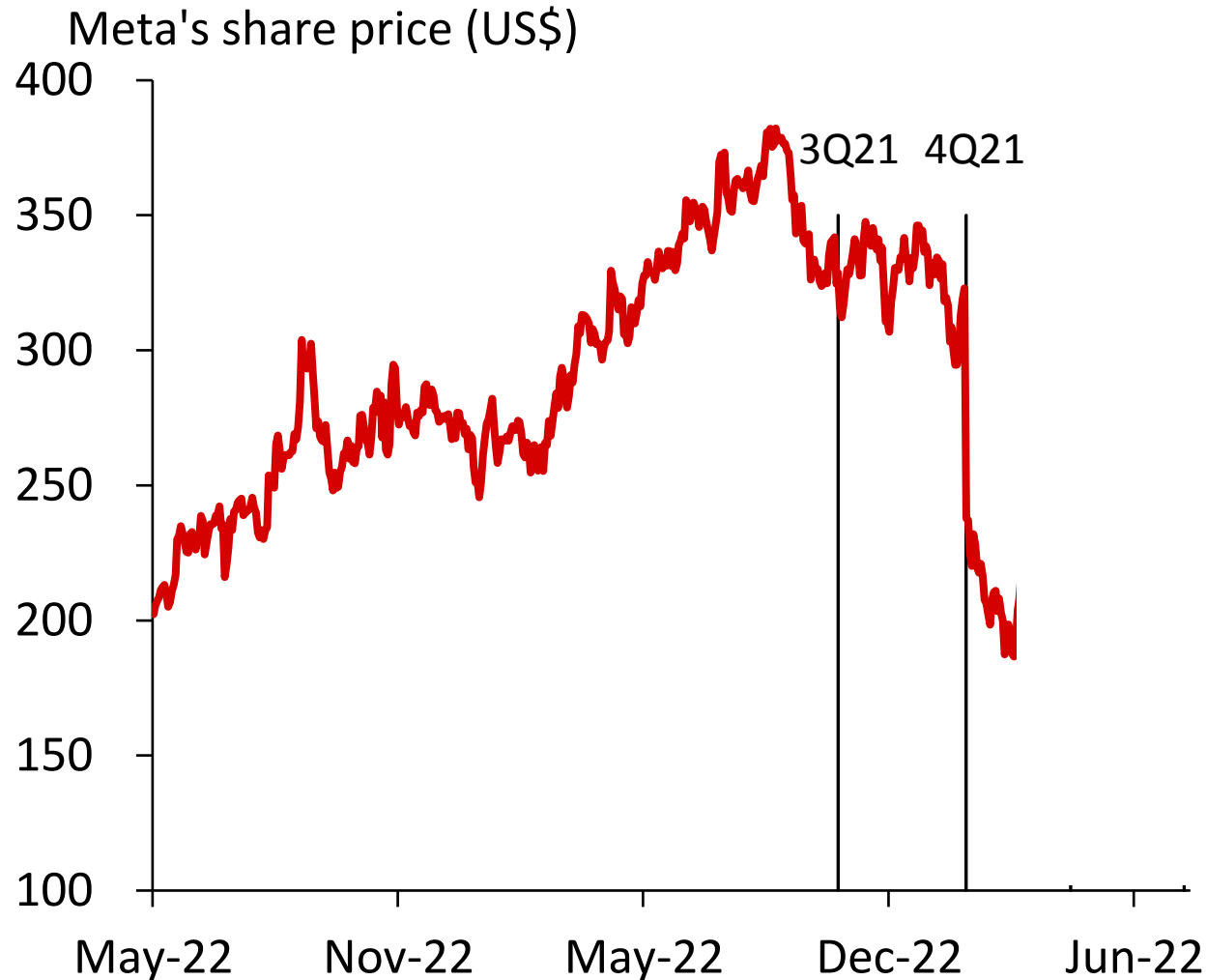
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RESEARCH

**Andrew Stotz, PhD, CFA**

- During the pandemic, Meta's share price surged to US\$378
- However, 3Q21 results were slightly below expectations and the share price dropped on announcement date

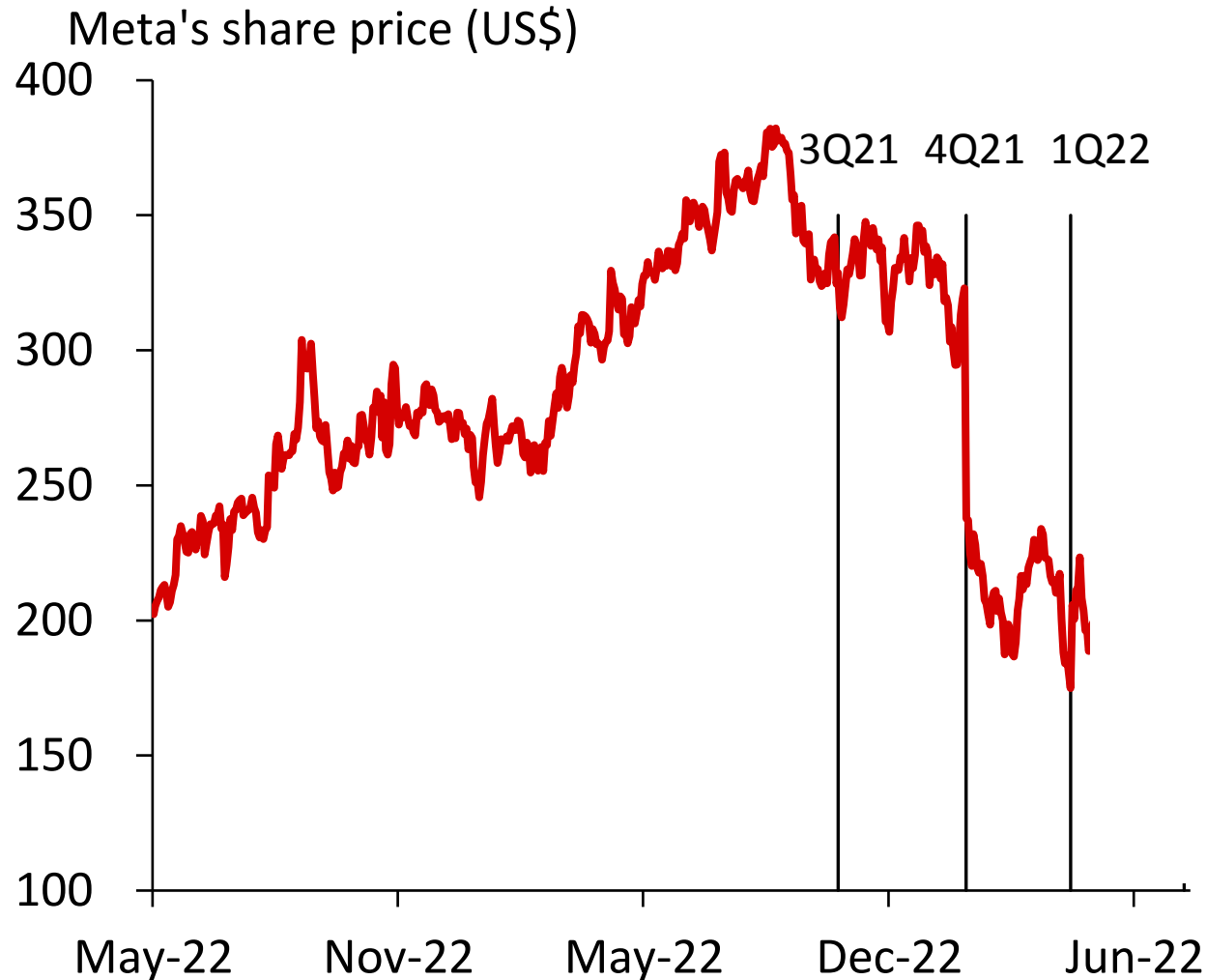
# The rise and fall of Meta's stock price



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- The big shock came with the 4Q21 announcement
- Meta completely missed the revenue target
- Also, Apple's changes in privacy rules limit customer tracking and hitting the advertising business

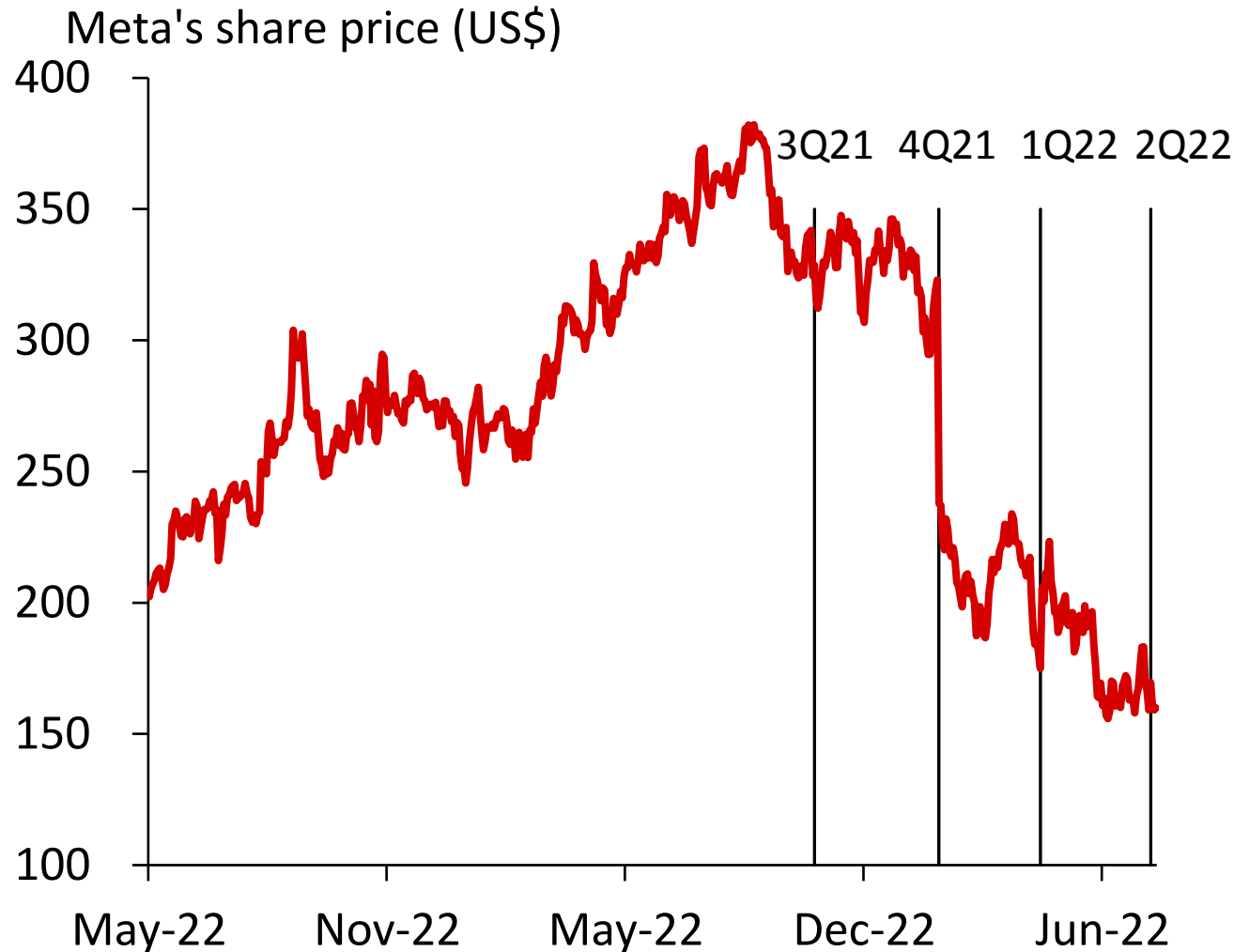
# The rise and fall of Meta's stock price



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- Met's share price dropped before the 1Q22 announcement
- However, it exceeded analyst expectations and therefore rebounded

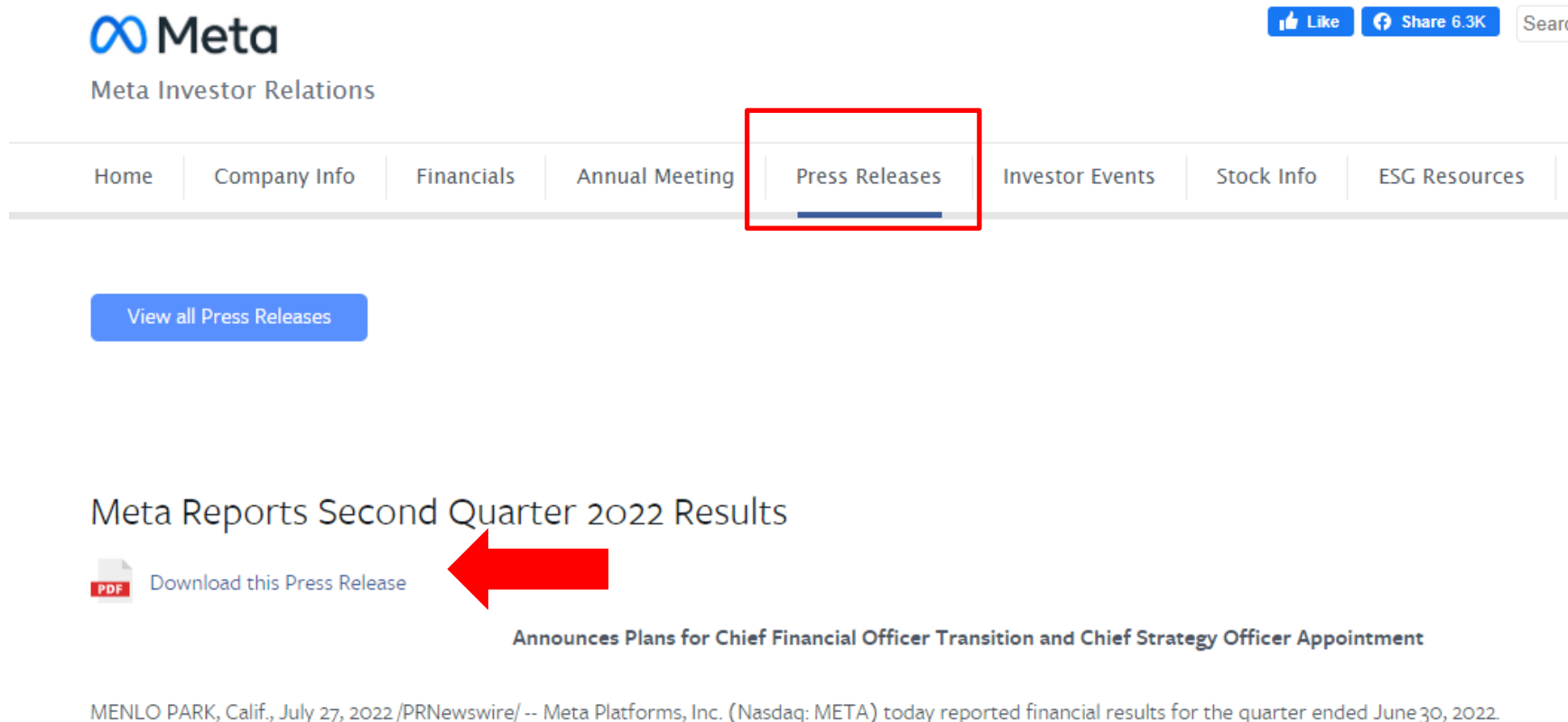
# The rise and fall of Meta's stock price



**Andrew Stotz, PhD, CFA**

- In 2Q22, Meta disappointed again with a weak bottom line
- The stock now trades 58% below its all-time high

# Let's download the latest 2Q22 results




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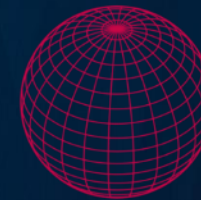
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## Meta Reports Second Quarter 2022 Results

 Download this Press Release

**Announces Plans for Chief Financial Officer Transition and Chief Strategy Officer Appointment**

MENLO PARK, Calif., July 27, 2022 /PRNewswire/ -- Meta Platforms, Inc. (Nasdaq: META) today reported financial results for the quarter ended June 30, 2022.



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# The press release starts with a statement of the CEO Mark Zuckerberg

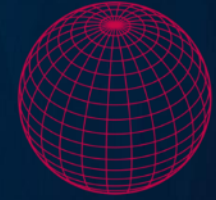
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## Meta Reports Second Quarter 2022 Results

Announces Plans for Chief Financial Officer Transition and Chief Strategy Officer Appointment

MENLO PARK, Calif., July 27, 2022 /PRNewswire/ -- Meta Platforms, Inc. (Nasdaq: META) today reported financial results for the quarter ended June 30, 2022.

"It was good to see positive trajectory on our engagement trends this quarter coming from products like Reels and our investments in AI," said Mark Zuckerberg, Meta founder and CEO. "We're putting increased energy and focus around our key company priorities that unlock both near and long term opportunities for Meta and the people and businesses that use our services."



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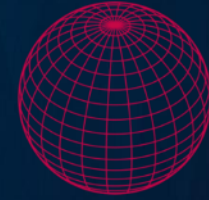


# For the first time in history, Meta recorded a decline in its revenue YoY!

## Second Quarter 2022 Financial Highlights

In millions, except percentages and per share amounts

	Three Months Ended June 30,		% Change
	2022	2021	
Total revenue	\$ 28,822	\$ 29,077	(1) %
Total costs and expenses	20,464	16,710	22 %
Income from operations	\$ 8,358	\$ 12,367	(32) %
Operating margin	29 %	43 %	
Provision for income taxes	\$ 1,499	\$ 2,119	(29) %
Effective tax rate	18 %	17 %	
Net income	\$ 6,687	\$ 10,394	(36) %
Diluted earnings per share (EPS)	\$ 2.46	\$ 3.61	(32) %



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- Operating profit margin crashed, down from 43% to 29%

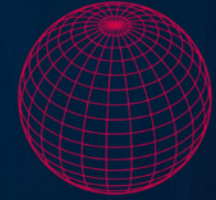
# Core business of advertising seems to have reached maturity

## Segment Results

In Millions



	<u>Q4'20</u>	<u>Q1'21</u>	<u>Q2'21</u>	<u>Q3'21</u>	<u>Q4'21</u>	<u>Q1'22</u>	<u>Q2'22</u>
Advertising	\$ 27,187	\$ 25,439	\$ 28,580	\$ 28,276	\$ 32,639	\$ 26,998	\$ 28,152
Other	168	198	192	176	155	215	218
Family of Apps Revenue	27,355	25,637	28,772	28,452	32,794	27,213	28,370
Reality Labs Revenue	717	534	305	558	877	695	452
Total Revenue	\$ 28,072	\$ 26,171	\$ 29,077	\$ 29,010	\$ 33,671	\$ 27,908	\$ 28,822



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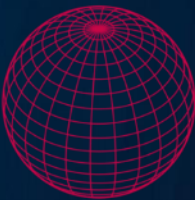
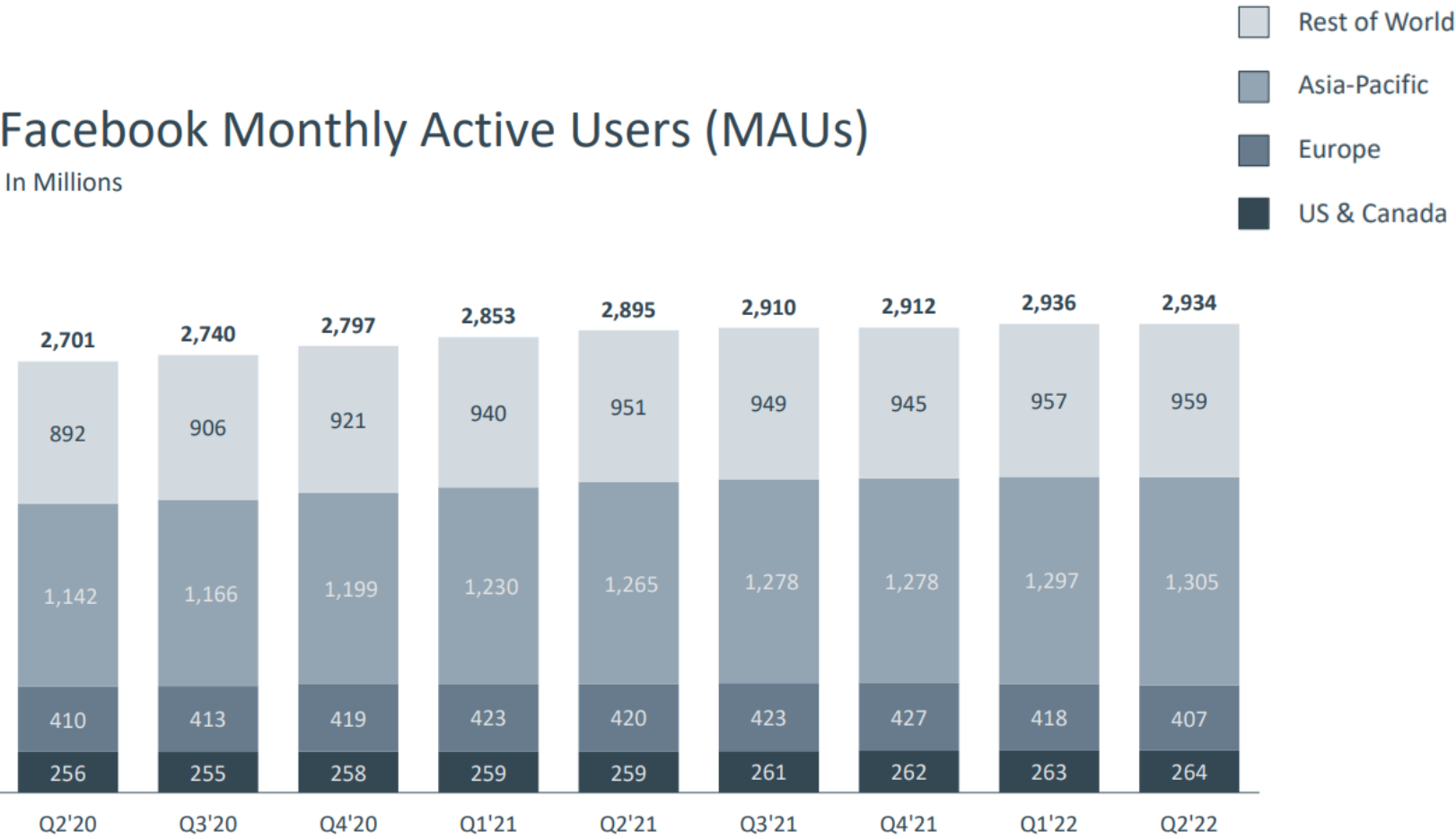
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# In 2Q22, it had fewer monthly active users

## Facebook Monthly Active Users (MAUs)

In Millions



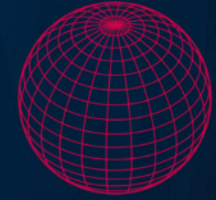
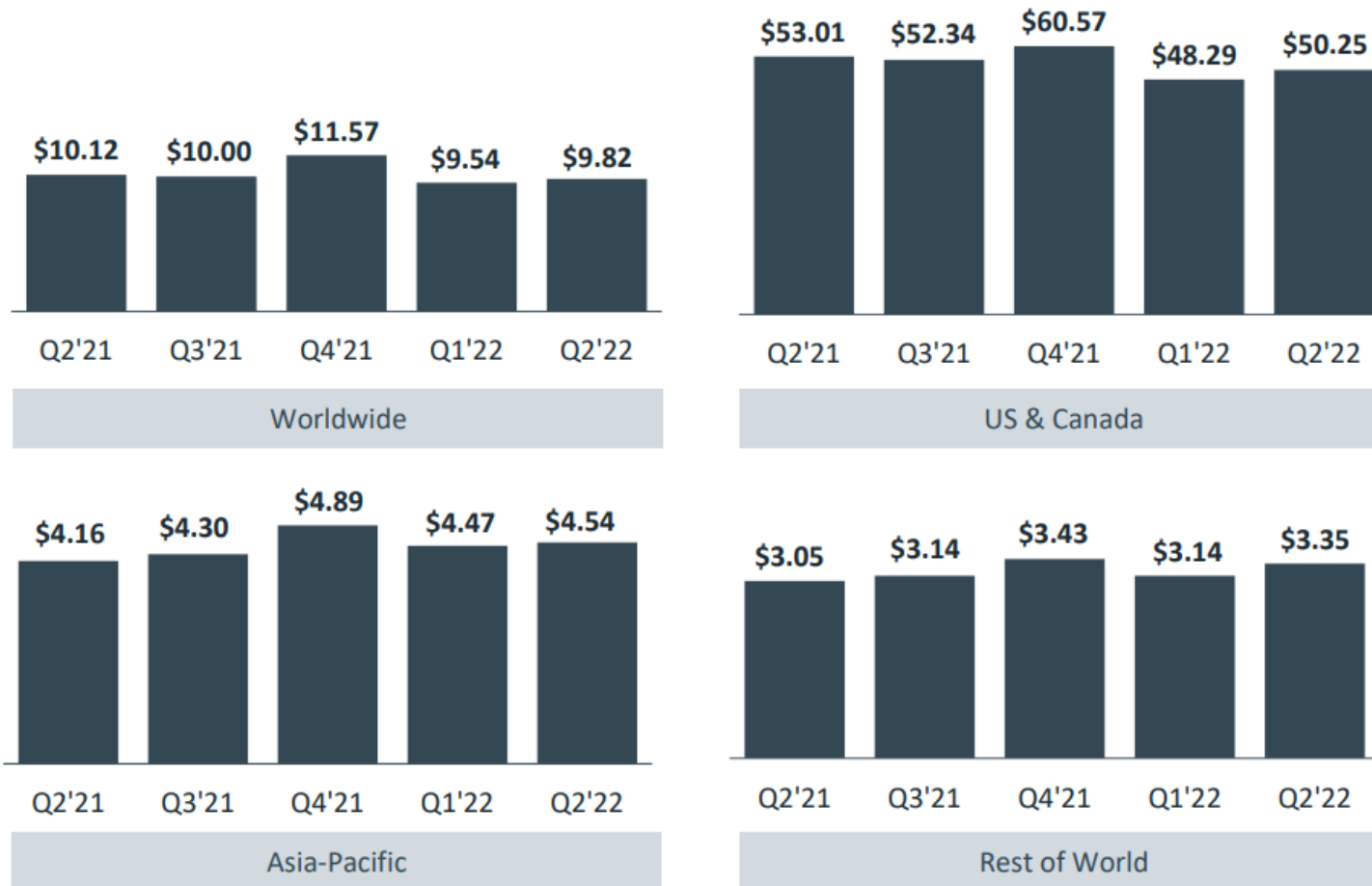
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# But monetization has room to improve

## Facebook Average Revenue per User (ARPU)



- So, Meta could generate massive growth if it finds a way to monetize users outside of the US



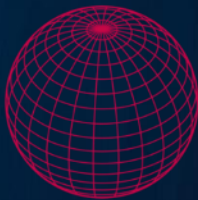
# Meta has to diversify its revenue streams

## Segment Results

In Millions



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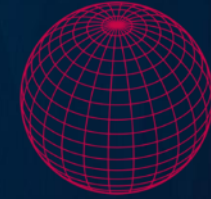
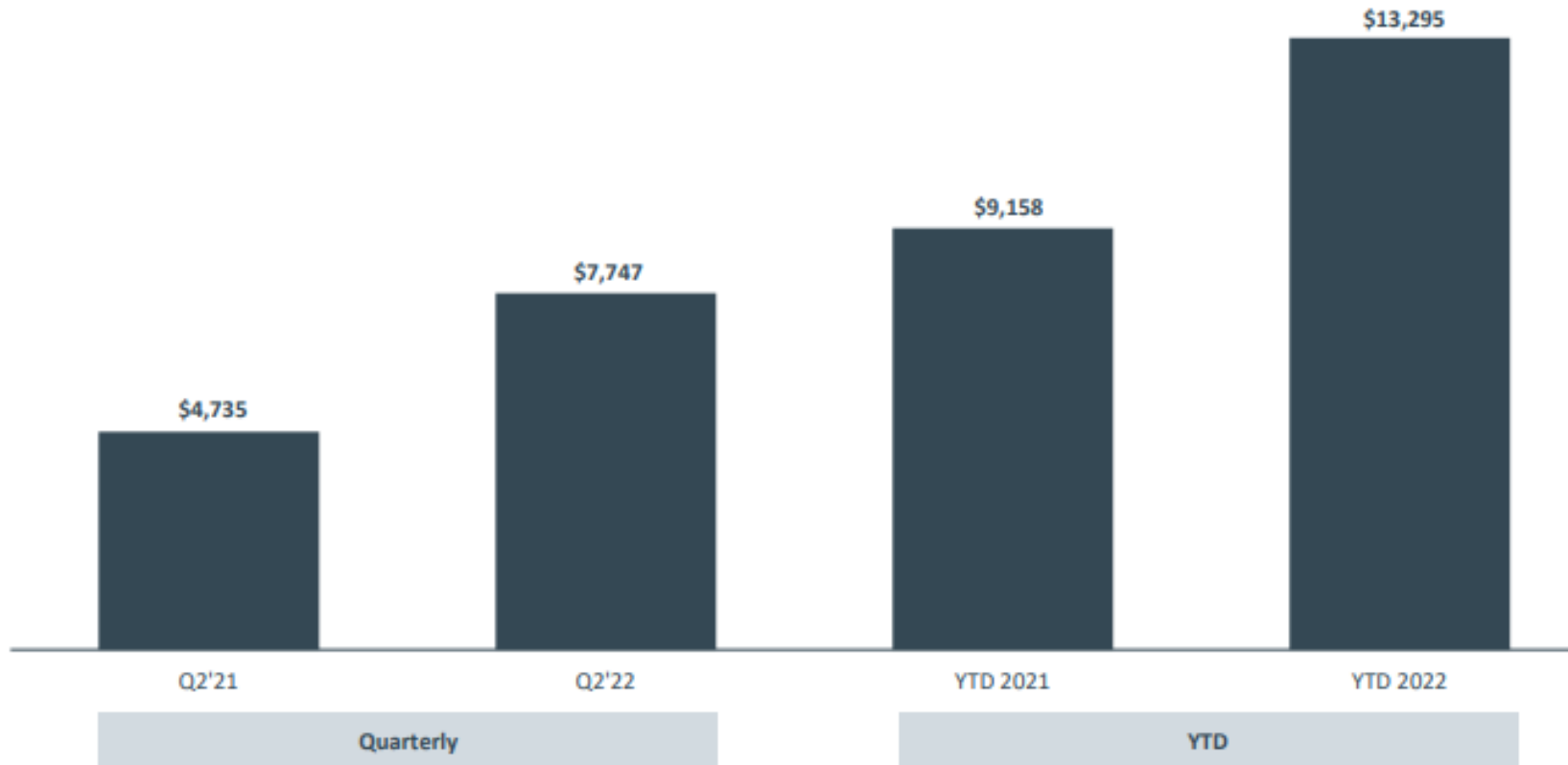
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- Zuckerberg has placed a huge bet on the Metaverse
- However, Reality Labs revenue disappointed in 2Q22

# Zuckerberg is convinced the Metaverse will be a success – Massive ramp-up of CAPEX

## Capital Expenditures

In Millions



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- It requires massive CAPEX and cash burn in the beginning
- There is no certainty that these investments will pay off big in the future

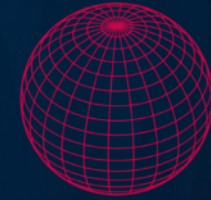
# More shocking than the flat revenue is the decline in profit

## Segment Results

In Millions



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Family of Apps Operating Income	\$ 14,874	\$ 13,205	\$ 14,799	\$ 13,054	\$ 15,889	\$ 11,484	\$ 11,164
Reality Labs Operating (Loss)	(2,099)	(1,827)	(2,432)	(2,631)	(3,304)	(2,960)	(2,806)
<b>Total Income from Operations</b>	<b>\$ 12,775</b>	<b>\$ 11,378</b>	<b>\$ 12,367</b>	<b>\$ 10,423</b>	<b>\$ 12,585</b>	<b>\$ 8,524</b>	<b>\$ 8,358</b>
<b>Operating Margin</b>	<b>46%</b>	<b>43%</b>	<b>43%</b>	<b>36%</b>	<b>37%</b>	<b>31%</b>	<b>29%</b>



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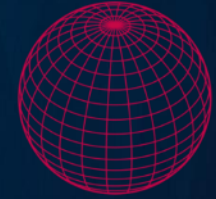
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- Operating margin shrunk to 29% from 46% in 4Q20
- The business segment Reality Labs continues to produce a US\$3bn loss EVERY quarter

# Has Facebook lost its profitability? Let's look at the fundamentals

	Global: All cos. Ex Real Est.	Global: All Comm. Serv. cos.
Income Statement	18-yr avg	18-yr avg
%		
Revenue	100	100
Cost of good & serv.	(71.3)	(46.1)
<b>Gross profit</b>	<b>28.7</b>	<b>53.9</b>
SG&A	(15.3)	(25.2)
Other operating exp.	(3.9)	(13.0)
<b>EBIT</b>	<b>9.5</b>	<b>15.7</b>
Other items	(3.8)	(7.2)
<b>Net profit</b>	<b>5.7</b>	<b>9.5</b>
Avg. # cos.	11,656	595



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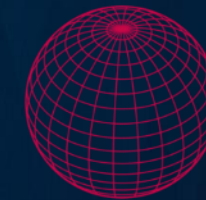
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- On average, the Comm. Serv. sector has almost a 2x higher gross margin compared to the global average



# Meta is king in generating profits

	Global: All cos. Ex	Global: All Comm.					
Income Statement	Real Est.	Serv. cos.	Alphabet	Facebook	Twitter	Pinterest	Snapchat
%	18-yr avg	18-yr avg	4-yr avg	4-yr avg	4-yr avg	4-yr avg	4-yr avg
Revenue	100	100	100	100	100	100	100
Cost of good & serv.	(71.3)	(46.1)	(44.4)	(18.4)	(34.2)	(27.6)	(52.4)
<b>Gross profit</b>	<b>28.7</b>	<b>53.9</b>	<b>55.6</b>	<b>81.6</b>	<b>65.8</b>	<b>72.4</b>	<b>47.6</b>
SG&A	(15.3)	(25.2)	(30.9)	(40.8)	(57.9)	(104)	(103)
Other operating exp.	(3.9)	(13.0)	-	-	(0.0)	1.3	(0.0)
<b>EBIT</b>	<b>9.5</b>	<b>15.7</b>	<b>24.8</b>	<b>40.8</b>	<b>7.9</b>	<b>(30.5)</b>	<b>(55.8)</b>
Other items	(3.8)	(7.2)	(1.0)	(7.6)	3.9	(0.2)	1.8
<b>Net profit</b>	<b>5.7</b>	<b>9.5</b>	<b>23.8</b>	<b>33.3</b>	<b>11.8</b>	<b>(30.7)</b>	<b>(54.0)</b>
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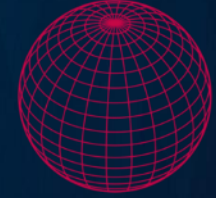
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- The historical EBIT margin was massive at 40.8%
- But in 2Q22, it is now at 29%
- Is it the end of Meta's dominance?

# Don't expect Meta to turnaround the negative trend in the short run



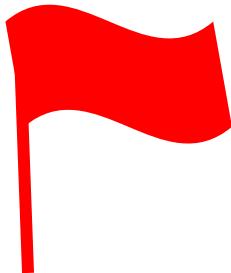
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## CFO Outlook Commentary

We expect third quarter 2022 total revenue to be in the range of \$26-28.5 billion. This outlook reflects a continuation of the weak advertising demand environment we experienced throughout the second quarter, which we believe is being driven by broader macroeconomic uncertainty. We also anticipate third quarter Reality Labs revenue to be lower than second quarter revenue. Our guidance assumes foreign currency will be an approximately 6% headwind to year-over-year total revenue growth in the third quarter, based on current exchange rates.



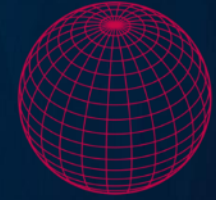
**This means Meta expects its revenue in 3Q22 to be 1.1 – 9.7% weaker than the already disappointing 2Q22**

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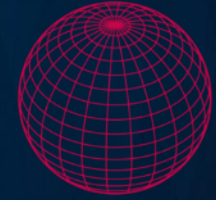
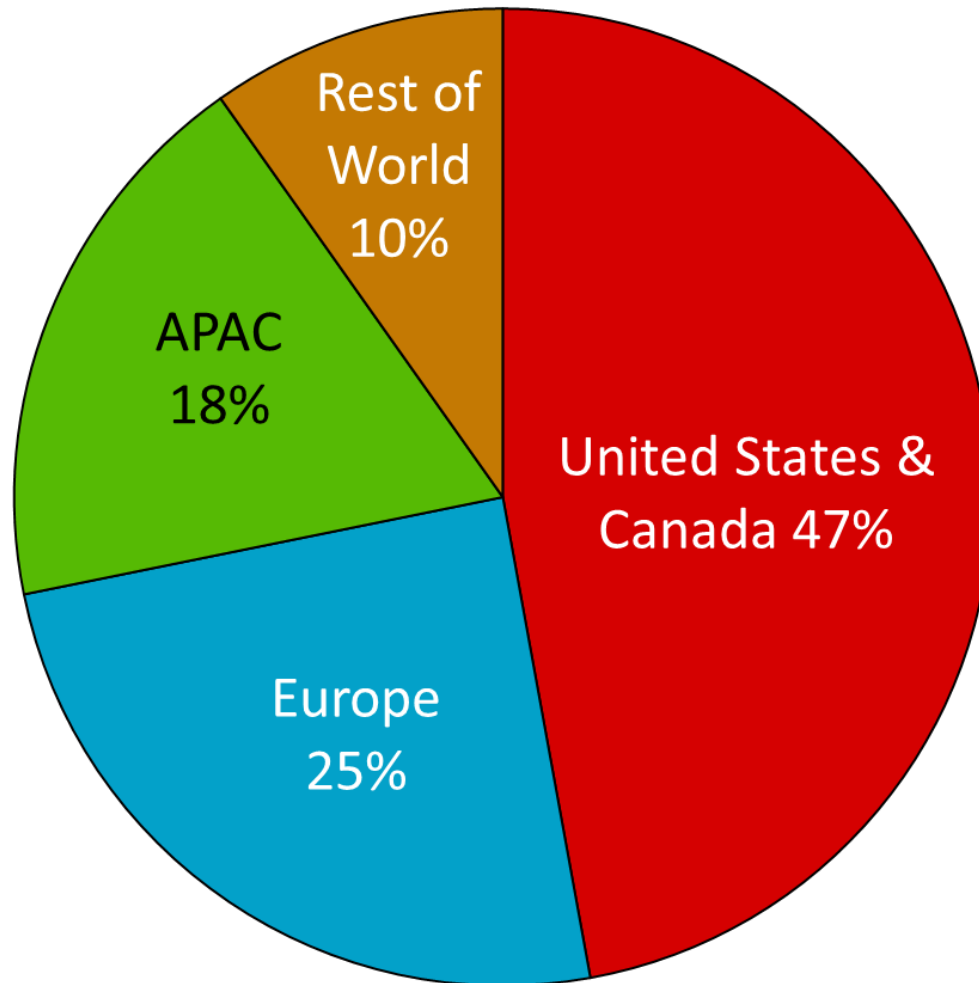


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# Strong dollar makes revenue abroad worth less



- Let's take the euro as an example
- In Aug-21, one euro was worth US\$1.19
- Now, you only get US\$1 for each euro
- The currency effect on revenue in this example is 15.9%