

# Meta Platforms Equity Research

11 October 2026 · Valuation date: 25 September 2026 Currency: US dollars · Reference share price: 25 September 2026

Prices are closing prices on 25 September 2026 unless stated otherwise. Forecasts and valuation are the author's estimates from the accompanying financial model; modelling limitations are set out in Section 5.5.

**Disclosure:** the author holds shares in Meta Platforms. See the disclosure and disclaimer at the end of this report.

## 1. Investment recommendation

I rate Meta **BUY** with a **12-month target price of \$905.43 per share**, implying **20.5% price upside** from its **\$751.66 closing price on 25 September 2026**. I believe Meta's established social platforms, improving advertising algorithm, performance and its distribution give it a strong position as AI changes how people use the internet. The main driver of this valuation is its advertising business and potential other catalysts such as personal agent Muse have not been included in the forecasts.

| Recommendation | 12-month target | Reference closing price | Price upside |
|----------------|-----------------|-------------------------|--------------|
| BUY            | \$905.43        | \$751.66 · 25 Sep 2026  | 20.5%        |

The target uses my existing bear, base and bull probabilities of 20%, 50% and 30%, and equal weighting of the perpetual-growth and EBITDA exit-multiple methods. Section 5 shows the calculation and the downside tests. [Reference-price source: META historical closing prices](#).

**Market update:** Meta closed at \$718.67 on 9 October 2026. Compared with the \$905.43 target, that implies 26.0% price upside. This is an updated price comparison, not a newly dated valuation: the target horizon remains 25 September 2027. [Source: historical closing prices](#).

### 1.1 Investment thesis

#### AI may strengthen Instagram advertising as discovery changes

Over time, I expect personal AI agents to do more of the searching and shopping that people now do themselves on platforms such as Google or Amazon. For many businesses, this would mean interacting with customers' AI agents rather than the customers directly. Consequently, if fewer people visit search results and product listings directly, fewer human eyeballs will see the advertisements placed there. I believe advertisers will then be less willing to pay as much for those spots and move more of their spending to platforms where people still spend time. Instagram and Facebook are fundamentally different because people mainly use them for entertainment, rather than searching to buy a predetermined product or service. I believe this migration would increase demand for Meta's ad space, while better advertising algorithms could increase the share of impressions that lead to a purchase. Together, greater advertiser demand and higher conversion rates would support higher prices per ad. This shift in advertiser spending is my thesis and it has not yet been demonstrated.

## Instagram and WhatsApp could capture more value from commerce

Instagram already helps consumers discover businesses and products. A smoother path from discovery to purchase could give Meta more ways to monetize those interactions, including business tools, paid messaging, and potentially transaction-linked fees. WhatsApp has a similar opportunity as businesses use AI agents to answer questions, recommend products, and complete sales in conversations. Meta says more than one million businesses use its Business Agent on WhatsApp and Messenger, and it is expanding the product to Instagram. [Source: Meta on Business Agent.](#)

## Muse and AI glasses could extend Meta's role in consumer decisions

In an agent-led market, the platform that helps a consumer decide what to buy or book will be valuable to businesses seeking that customer. Meta has introduced Muse, an agent that can research, negotiate, and make purchases with user approval, and has announced plans to bring it to its AI glasses. By already having apps, messaging services, and consumer devices, Meta has many ways to integrate its AI agent into its products and its consumers' lives. I believe that as people increasingly shop through agents such as Muse instead of visiting retailers' sites directly, retailers will lose some control over the customer relationship. This distribution will enable Meta to hold a strong position in AI-enabled commerce, from everyday shopping to travel. Although the commercial model is still developing, I believe Meta could generate revenue through consumer subscriptions and potentially commissions on purchases made through Muse. However, as the revenue, margins, and additional investment required are unknown, I treat this as longer-term upside rather than a separately valued source of cash flow in the current DCF.

I believe one major competitive advantage Meta has is its ability to fund AI development and services through the cash flow generated by its advertising business. This allows Meta to support a broad free tier while it tests how consumers use Muse and which features they will pay for. It generated \$43.6 billion of reported free cash flow in FY2025, and Muse is currently free for most uses with optional subscriptions. I believe this could give Meta time to build consumer habits around the agent before pushing for greater monetisation. However, this advantage has limits: reported free cash flow fell to \$0.8 billion in Q2 2026 as investment rose, and OpenAI and Anthropic have both raised substantial external funding. [Sources: Meta FY2025 Form 10-K, Q2 2026 results, Muse launch, OpenAI funding announcement, and Anthropic funding announcement.](#)

## 2. Business review

### 2.1 Revenue mix

Meta reports two business segments: Family of Apps, which includes Facebook, Instagram, Messenger, WhatsApp and other services, and Reality Labs. Advertising generates almost all of Meta's revenue. Advertisers choose a campaign budget and objective, and Meta places ads across its apps and some third-party sites and apps within that budget. The clicks and sales generated show advertisers how effective their spending has been. If advertisers achieve better results, they are more likely to spend more on Meta ads. Facebook and Instagram are central to this business, although Meta does not disclose advertising revenue for each app separately. [Source: Meta FY2025 Form 10-K.](#)

Beyond advertising, Meta earns revenue from paid WhatsApp business messaging, Meta Verified subscriptions, net fees from developers using its Payments infrastructure, and other smaller sources. Meta has introduced [Muse subscription plans](#), but has not disclosed their revenue separately. Then Meta also has its Reality Labs business where it sells consumer hardware such as Meta Quest

headsets and AI glasses, as well as related software and content. In FY2025, advertising contributed \$196.2 billion, or 97.6% of Meta's \$201.0 billion total revenue; Family of Apps other revenue contributed \$2.6 billion, or 1.3%; and Reality Labs contributed \$2.2 billion, or 1.1%. Reality Labs nevertheless recorded a \$19.2 billion operating loss that year, so its costs matter much more to current profit than its revenue contribution. [Source: Meta FY2025 Form 10-K](#).

## 2.2 Advertising customers and product discovery

Meta's customers include ecommerce and direct-to-consumer brands, retailers, and marketplace platforms such as Amazon, Temu and Shein. Meta's social media platforms are particularly useful for discovery-based marketing. Unlike a search ad shown after someone looks for a specific product, an ad in Instagram or Facebook can introduce a product while someone is browsing for entertainment. High-quality video, Reels and Story ads can build interest in visual products users had not planned to search for. [Meta describes how its ads help people discover products](#). Meta does not disclose what share of advertising revenue comes from ecommerce or how much individual advertisers spend, so these examples should not be treated as a measure of its customer mix. [Source: Meta FY2025 Form 10-K](#).

I believe AI is making it increasingly easy for advertisers to create intriguing ads that can trigger a sudden urge to buy a product. Instagram is particularly well placed to benefit because someone scrolling for entertainment may come across an ad that makes them want a product they had not previously considered. Combined with Meta's ability to show the right ad to the right person, more engaging creative content could increase the share of viewers who go on to make a purchase.

Meta's Advantage+ tools make those campaigns easier to run. Advertisers still choose their objectives, budgets and creative assets, while Meta can automate parts of audience selection, ad placement and testing of creative combinations to find what performs better. This reduces the manual work of reaching potential buyers, but the advertiser remains responsible for its offer and creative strategy. [Sources: Meta on Advantage+ shopping campaigns](#) and [Meta's description of Advantage+ automation](#).

## 3. Competitive position

On the short-form content side, Instagram Reels and Facebook compete with YouTube Shorts and TikTok. I believe Instagram is particularly attractive to creators who want to establish their authenticity by showcasing their daily lives and building a personal brand. I see TikTok as more centred on quick entertainment, humour and trends, while YouTube is more strongly associated with long-form videos by the public. Therefore, Instagram is the perfect intermediary between the two, combining posts, Stories and Reels so that creators can entertain their audience while also presenting a consistent personal identity. I believe this combination makes Instagram particularly suitable for creators who want to build trust and turn their personal brand into long-term relationships with sponsors.

As creators build an audience that trusts them, they can become more attractive to brands seeking sponsorships. More sponsorship opportunities could then encourage creators to prioritise Instagram and invest more time in their content, which in turn could attract more brands. I believe this creates a flywheel where creators and advertisers give each other more reasons to use Instagram. For Meta, the revenue opportunity comes when brands pay to promote that creator content through its advertising system; a private sponsorship alone does not necessarily generate advertising revenue for Meta. Although private sponsorships do not necessarily generate direct revenue for

Meta, they incentivise creators to keep creating content on Meta's platforms, hence keeping their audiences tied to Instagram or Facebook.

Its Creator Marketplace helps brands find relevant creators, while Partnership Ads let brands pay to promote content with a creator's handle. If a creator has earned an audience's trust, a recommendation may create interest in a product and make that creator valuable to an advertiser. [Source: Meta on Instagram Creator Marketplace and Partnership Ads](#). In a [Meta-reported experiment](#) involving about 2,400 advertisers, adding Partnership Ads to regular campaigns lowered reported cost per action (CPA) by 19% on average. That supports the commercial value of creator ads within Meta, but it is not a comparison with rival platforms.

This is my assessment of Instagram's position, rather than evidence that creators universally prefer it. YouTube also offers [posts with images, polls and other updates](#), alongside Shorts and long-form videos. [TikTok Shop](#) also combines creator-led discovery with purchases, while [YouTube](#) is expanding creator brand deals and shopping links in Shorts. These remain direct competitors for the creators and advertising budgets that support this flywheel.

On the retail advertising side, Meta competes with Google and Amazon for retailers' advertising budgets, but the platforms can reach consumers at different points in a purchase. [Google Search ads](#) and [Amazon's sponsored product ads](#) often meet people who are already researching or shopping. An Instagram or Facebook ad can introduce a product while someone scrolls without a purchase in mind. I see that discovery role as a strength for Meta, especially for visual products and creator recommendations. A brand may use Meta to create interest and Google or Amazon to capture demand later. The important test is whether Meta can turn that attention into measurable sales at a return that keeps advertisers spending.

## 4. Financial performance and forecast

### 4.1 Historical performance

Considering Meta's past performance, I believe its advertising business is slightly dependent on the global economy. In FY2022, when inflation and interest rates were rising, revenue fell slightly from \$117.9 billion to \$116.6 billion and the average price per ad declined 16%, even though ad impressions grew 18%. Although this decline cannot be attributed entirely to the global economic slowdown, I believe it played some part. Meta's management also cited weaker advertiser demand, changes to iOS that limited ad targeting and measurement, an unfavourable currency impact, and more ads being shown in lower-priced formats such as Reels. [Source: Meta FY2022 Form 10-K](#).

During that time, Meta was investing heavily in the metaverse and Reality Labs. Reality Labs recorded a \$13.7 billion operating loss in FY2022, up from \$10.2 billion in FY2021, while Meta's overall operating margin fell from 39.6% to 24.8%. This showcases how much Meta can spend on a new venture before it generates meaningful profit. Capex also rose from \$19.2 billion to \$32.0 billion, which in turn suppressed free cash flow. Operating losses, other expenses, and depreciation affected operating margin. [Source: Meta FY2022 Form 10-K](#).

Following the downturn, Meta's advertising business picked up in FY2023: ad impressions grew 28% while the average price per ad still fell 9%. This rebound did not depend on falling US interest rates, which continued to rise in 2023. In FY2024, impressions grew 11% and average price per ad grew 10%; in FY2025, they grew 12% and 9%, respectively. Meta's operating margin recovered to 42.2% in FY2024 and remained at 41.4% in FY2025, even as capex rose sharply to \$72.2 billion in FY2025. The increased capex did, however, reduce reported free cash flow from \$52.1 billion in FY2024 to \$43.6 billion in FY2025. [Sources: Meta FY2023 Form 10-K, FY2024 results, FY2025 results, and Federal Reserve policy history](#).

I believe we have started to observe Meta's advertising algorithms getting better at showing the correct ads to the correct audience, helping advertisers achieve greater returns on their ad spend. Better returns could, in turn, encourage advertisers to spend more on Meta ads. I expect Meta's AI investments in FY2025 and FY2026 to help sustain advertising growth by improving recommendations and ad performance. In Q1 2026, impressions rose 19% and average price per ad rose 12%; in Q2, they rose 14% and 12%, respectively. The illustrative driver bridge in my base model uses about 15% impression growth and 11% price growth in FY2026, followed by slower impression growth. I set advertising revenue growth directly; the bridge derives the price growth needed at the assumed impression growth, rather than independently forecasting both drivers. Both measures growing in the mid-teens for longer would be upside to that base case, rather than a result established by the past few years. [Sources: Meta Q1 2026 results](#) and [Q2 2026 results](#).

## 4.2 Advertising and revenue growth

I expect ad impressions to keep growing as Meta's recommendations improve and people spend more time on its apps, giving Meta more opportunities to show ads. As mentioned previously, with the rise of personal AI agents such as Muse, I believe advertisers will shift some spending from platforms such as Google and Amazon to Meta. As a result, I expect more of those ad opportunities to be sold. The shift in advertiser demand would also put upward pressure on the price per ad. Separately, Meta's AI investment should help it show the right advertisement to the right customer. If that improves the share of ads that lead to a purchase, each impression becomes more valuable to advertisers, giving them another reason to pay more even after recent strong price growth.

Recent results support my expectation that advertisers can keep paying more per ad. Meta's average price per ad rose 10% in 2024, 9% in 2025, and 12% year over year in both Q1 and Q2 2026. Advertising revenue growth also accelerated from 21% in Q2 2025 to 27% in Q2 2026. In its 2025 annual filing, Meta said the increase in advertising demand that lifted prices was mostly due to improvements in ad targeting and measurement. In Q2 2026, management reported conversion gains from specific new ad-model deployments on Instagram and Facebook. Those results support the mechanism behind my forecast, although they do not show how much of company-wide price growth AI caused. Management also cited economic conditions and currency as contributors to Q2 pricing growth. Sustaining roughly 9–12% annual price growth through 2030 is therefore my forecast judgment, not a result already demonstrated for that full period.

I expect advertising growth to slow gradually over the forecast rather than drop abruptly in any one year. This has two main components. First, impression growth should slow because there are limits to how much time people spend on Meta's apps and how many ads Meta can show without hurting the user experience. Second, I expect price growth to eventually moderate too, although better conversion and competition among advertisers could support growth in price per ad for longer. A global economic slowdown or recession could cause advertising growth to slow faster: weaker consumer purchasing power would hurt ecommerce sales and make advertisers less willing to spend. Although I believe Meta could take advertising market share from other platforms in that environment, gaining market share does not guarantee that Meta's own advertising revenue keeps growing.

Advertising budgets have shifted between media before. As audiences moved online, advertisers moved spending away from television toward digital channels. I believe we are set to see a similar shift within digital advertising as adoption of personal AI agents ramps up and reduces the human traffic that gives search and shopping ads their value. I believe some online retailers, such as Amazon, are aware of this. Following Muse's debut, Amazon blocked it from its website. Although management cited concerns about the security of personal information, I believe protecting its

advertising business may also have played a part, although this is my interpretation of its motives. In such an environment, Instagram and Facebook would benefit if they continue to hold people's attention while those other ad placements lose viewers. To judge whether this is happening, I would track Meta's engagement and ad prices alongside evidence of changing advertiser budgets.

In my base model, advertising revenue growth moderates from about 27% in FY2026 to 16% in FY2030. For FY2031–35, I forecast total revenue growth easing from 14% to 7%, with advertising remaining the main source of sales. [Sources: Meta FY2025 Form 10-K](#) and [Q2 2026 earnings call](#).

### 4.3 AI investment, depreciation and margins

Unfortunately, Meta does not specifically disclose how much of its AI spending goes to each individual product. Therefore, my forecasts account for the combined infrastructure spending for advertising, AI models, and consumer and business agents.

According to management, Meta expects to spend \$130–145 billion on capex, including finance-lease principal, in 2026, which is consistent with my \$140 billion estimate. I forecast capex to rise to roughly \$250 billion in FY2029, then gradually decline to \$160.7 billion by FY2035, which corresponds to about 64% of the peak. The FY2029 capex peak is my forecast, not company guidance. Meta has not given a specific 2027 capex outlook. However, looking at competitors such as Google, whose parent company Alphabet has said that its FY2027 capex will increase significantly compared with FY2026, Meta doubling its capex would not surprise me. This would be above my base-case forecast of \$190 billion for FY2027 and would require me to revisit the projected peak. [Source: Alphabet's June 2026 investor presentation](#).

One aspect that is not visible at first sight is that many of Meta's future infrastructure commitments are made through lease commitments and arrangements with external partners such as Blue Owl Capital. The future lease liabilities are generally recorded on its balance sheet when the leases commence, separately from long-term borrowing. This does not mean that all effects of the arrangements are absent before then: Meta's investment in the venture is already recorded on its balance sheet. Regardless, once the leases start, they will create considerable future costs that Meta is committed to paying. Additionally, such leases can reduce upfront capex compared with owning the infrastructure, which could understate how capital-intensive the business is if only capex is considered. Therefore, I believe a decline in capex should be considered alongside these commitments, as lower capex does not necessarily mean that Meta's total infrastructure spending is falling. [Source: Meta Q2 2026 Form 10-Q, Notes 5 and 9](#).

I believe rising memory prices pose a risk here. In its 30 September 2026 presentation, Micron's management said that it expects the memory market to be tighter in 2027 and 2028 than in 2026. This is evidence published after my valuation date, rather than information available when the model was dated. Additionally, reported average South Korean NAND export unit values rose by around 60% between July and the first 20 days of August 2026. As this increase came after Meta's Q2 results, management may not have fully accounted for it in its outlook, although the timing alone does not establish this. This is another reason why I forecast FY2026 capex towards the upper end of management's range. Although these export unit values are affected by product mix and may not directly reflect the prices Meta pays, they are still an aspect to keep in mind. [Sources: Micron's Q4 FY2026 earnings presentation](#) and [reporting on South Korean NAND export unit values](#).

Regarding Meta's AI buildout plans, management says that it is prioritising compute capacity for 2026 and 2027 while laying longer-lived data-centre and network foundations that allow it to make later server purchases when demand is clearer. As the first wave of capacity comes online, I expect

the pace of new expansion to ease, although replacing equipment and supporting new AI products will keep spending high.

I also expect Meta to weigh additional AI spending against the returns it can see in its core advertising business and newer products. Meta's reported free cash flow narrowed to \$0.8 billion in Q2 2026, showing the pressure from the buildout, but I do not treat negative free cash flow as a firm limit on investment: Meta says it can supplement operating cash flow with external capital. My base case assumes that the memory market will remain tight through 2028 and will not normalise until 2030. Memory supply may improve, but the timing and effect on the cost of Meta's full infrastructure buildout remain uncertain. If AI demand, competition for frontier models, or hardware costs stay higher than I expect, capex could remain close to its peak for longer, putting more pressure on free cash flow and the valuation.

In my model, annual depreciation and amortisation are forecast at 12.4% of average net PP&E, close to the 12.5% ratio calculated from Meta's reported FY2025 figures. It is important to recognise that this is a modelling ratio applied to average net PP&E, not a claim that Meta depreciates every asset over eight years. As heavy AI capex increases net PP&E, I expect depreciation to weigh increasingly on operating margin through FY2030, when the base case bottoms at about 30%. After that, as capex falls from its peak and revenue continues to grow, productivity gains, a possible decrease in headcount, and higher revenue from AI-enhanced advertising could help operating margin climb back to about 35% by FY2035. In the base case, EBITDA margin rises from about 46% in FY2026 to 52.5% in FY2035. By FY2035, it reaches 55.5% in the bull case and 46.9% in the bear case. Additional revenue streams from Muse and enterprise agents could create upside, but I have not forecast them separately, as the future scale and adoption of these new features are still uncertain.

**Sources:** [Meta Q2 2026 results](#) and [earnings call](#). Later-year capex and margin figures are my model forecasts.

#### 4.4 Free cash flow outlook

Much of Meta's AI infrastructure spending occurs before the full benefits appear. It is building data centres and buying servers and network equipment now, while new capacity can only be used after it comes online. Mark Zuckerberg has acknowledged that lead time. Despite this lead time, I believe we have already started to see the benefits of these investments in Meta's advertising algorithms. Ad impressions have increased, while management has attributed engagement gains partly to improvements in AI recommendations. However, I believe Meta has yet to realise the full benefits of its previous AI investments. The difference between when cash is spent and when the new capacity contributes to the business is one reason I expect free cash flow to remain under pressure in the near term.

In my base case, unlevered free cash flow bottoms at about negative \$59.6 billion in FY2027. It remains negative through FY2030, then turns positive at about \$44.0 billion in FY2031 and gradually rises to \$228.7 billion by FY2035. These are my model's unlevered free cash flow figures, calculated as after-tax operating profit plus depreciation and amortisation, less capex and additional working capital. I use unlevered free cash flow because my DCF values Meta's operations before financing flows and discounts these cash flows using WACC. Stock-based compensation remains included in operating expenses and is not added back because, although it is non-cash, the shares granted to employees represent a cost to shareholders through potential dilution. This differs from Meta's reported free cash flow, which starts with operating cash flow and includes an add-back for non-cash stock compensation within that measure.

The recovery in Meta's unlevered free cash flow depends on a combination of higher advertising revenue, improving operating margins, and capex falling from its FY2029 peak. Although capex keeps rising until FY2029, operating cash generation improves enough in the model for free cash flow to bottom earlier. If AI demand or competition leads Meta to spend near peak levels for longer, free cash flow would recover more slowly or remain negative for longer. The spending itself reduces cash flow; the subsequent depreciation and operating costs of the infrastructure could also hold down EBIT margins.

## 5. Valuation

### 5.1 Terminal valuation rationale

AI has certainly made it easier to produce software features, which creates a threat to many software companies; however, I believe that this threat does not necessarily apply to Meta in the same way. I believe the differentiator for Meta is the network effect, which is very hard to break; consequently, the network of people, creators and businesses on Instagram and Facebook is the real moat. I believe those relationships, together with the advertiser demand they attract, will help Meta sustain its moat. By FY2035, I also expect Meta to be more than a social media company. Its AI glasses, Muse agent and AI models could give it a larger role in how people communicate, shop and manage daily tasks. I expect its advertising business to keep growing as better ad matching improves advertiser returns and some budgets shift from search and shopping platforms toward Meta's social feeds. If Meta can turn these advantages into sustained growth and cash generation, I believe a 12x FY2035 EBITDA exit multiple is plausible.

This multiple still requires a judgment about what Meta will be worth in 2035. Muse now offers subscription plans and can help users make purchases, but Meta has not disclosed a merchant commission model or material Muse revenue. The base DCF does not separately forecast those opportunities or their additional costs. I therefore treat the value of a broader AI and hardware business as a reason to test the 12x multiple, rather than as a proven addition to the forecast cash flow. I compare the 12x result with the 3% perpetual-growth valuation and test both methods against higher capex and slower revenue growth.

I give the 3% perpetual-growth method and the 12x FY2035 EBITDA exit method equal weight in my base-case valuation. The perpetual-growth method values Meta using the cash flow left after investment spending. The EBITDA exit method reflects my belief that Meta's network effects and potential to expand into AI agents and hardware could support a value of 12 times EBITDA in FY2035. It is difficult to know what Meta will look like that far into the future, so the 50/50 weighting is my judgment, rather than proof that both methods are equally accurate. The perpetual-growth method gives a value of about \$616 per share, while the EBITDA exit method gives about \$867. Their average gives a base-case value of about \$741 per share. I show both values because taking their average does not remove the uncertainty behind the difference. This matters because higher capex reduces free cash flow, but it is not directly deducted from EBITDA.

### 5.2 Scenario values and the 12-month target

I retain a 20% bear, 50% base and 30% bull probability. Each scenario's fair value blends the two terminal methods equally. These method weights and scenario probabilities are separate judgments.

| Scenario                    | Probability | Fair value at model date, \$/share | Illustrative value after 12 months, \$/share | Price upside / downside after 12 months |
|-----------------------------|-------------|------------------------------------|----------------------------------------------|-----------------------------------------|
| Bear                        | 20%         | \$455.81                           | \$502.90                                     | −33.1%                                  |
| Base                        | 50%         | \$741.46                           | \$819.40                                     | +9.0%                                   |
| Bull                        | 30%         | \$1,190.71                         | \$1,317.15                                   | +75.2%                                  |
| <b>Probability-weighted</b> | <b>100%</b> | <b>\$819.11</b>                    | <b>\$905.43</b>                              | <b>+20.5%</b>                           |

The bear, base and bull cases use terminal perpetual growth of 2.5%, 3.0% and 3.5%, and EBITDA exit multiples of 10x, 12x and 14x, respectively. Meta's business comes from developing countries as well as developed countries, hence I believe a 3% terminal growth rate for the base case is reasonable. However, as my valuation is in US dollars, this depends on growth in those markets translating into sustainable US-dollar cash flow growth. Consequently, the higher bull-case valuation reflects both stronger operating forecasts and more favourable terminal assumptions. In the bear case, I assume the business has limited real growth and a weaker moat, which is why I use a lower terminal growth rate and exit multiple.

All upside figures in the table use the reference price of \$751.66. The scenario values after 12 months apply the workbook's target-price convention to each scenario: fair value  $\times (1 + 10.7972\% \text{ cost of equity}) - \$2.12$  expected dividends per share. They are derived comparisons, not additional scenario forecasts. The \$2.12 dividend is the model's estimate; annualising the latest declared quarterly dividend of \$0.525 would equate to \$2.10, which would increase the target by only \$0.02 if substituted. [Source: Meta's September dividend declaration.](#)

| Target-price calculation                                    | Value           |
|-------------------------------------------------------------|-----------------|
| Bear contribution: $\$455.81 \times 20\%$                   | \$91.162        |
| Base contribution: $\$741.46 \times 50\%$                   | \$370.730       |
| Bull contribution: $\$1,190.71 \times 30\%$                 | \$357.213       |
| Probability-weighted fair value                             | \$819.105       |
| Roll forward one year: $\$819.105 \times 1.107972 - \$2.12$ | <b>\$905.43</b> |
| Implied price upside: $\$905.425405 \div \$751.66 - 1$      | <b>20.5%</b>    |

The base-case fair value of \$741.46 is slightly below the reference price. However, rolling this forward by  $(1 + 10.7972\% \text{ cost of equity})$ , less \$2.12 in expected dividends per share, gives a base-case target price of \$819.40, which implies 9.0% upside. This is below the 15% BUY threshold. Accounting for my slightly skewed scenario probabilities gives a probability-weighted fair value of \$819.11. Rolling this value forward using the same calculation gives a target price of \$905.43 and implies 20.5% upside, which is above the BUY threshold.

My reasoning for the skewed scenario probabilities is the following: I believe Meta has several ways to generate revenue beyond what I can confidently quantify today. The model's bull value combines faster advertising growth, higher EBITDA margins and more favourable terminal assumptions. Additionally, Muse offers potential that I have not valued separately. Instagram, Facebook and WhatsApp give its personal agent an existing route to consumers, while a [planned integration with Meta's AI glasses](#) could bring Muse into daily use. I also expect Instagram's algorithm to keep improving engagement and ad performance.

In its Q2 2026 results, Meta management said Instagram time spent grew by double digits and attributed this largely to better Feed and Reels recommendations. Management also noted that an early LLM ad-matching pilot lifted Instagram app-event conversions by 1%. These figures support

the direction of my advertising thesis, but they do not prove that the same pace of improvement will continue in the future. My confidence in the bull case over the coming years will depend on whether Muse attracts sustained usage and paying customers, enterprise AI tools gain traction, and Instagram continues to improve engagement and advertising results. A stronger future model would help, but its timing and performance remain uncertain. Strong early adoption would support the bull case, although it would not confirm the full FY2035 forecast. [Source: Meta Q2 2026 earnings call.](#)

On the other hand, the bear case would become more likely if Meta's new AI features see little adoption and advertising growth slows. A recession or global economic slowdown could also weaken advertising even if people keep spending time on Meta's apps. This is because households would have less purchasing power, so advertisers might expect fewer sales and reduce their budgets or bids. Meta's management acknowledges this risk by saying that macroeconomic uncertainty has previously pressured advertising budgets and reduced marketer spending. [Source: Meta 2025 Form 10-K.](#)

Following the bear thesis, if weak AI adoption persists as well, I would expect Meta to slow later AI equipment purchases and for capex to peak below the base case; my modelled bear case peaks at \$210 billion in FY2029 versus \$250 billion in the base case. But if spending is difficult to reduce quickly, low adoption could coincide with elevated capex and weaker free cash flow than my modelled bear case shows.

### 5.3 Sensitivity to sustained capex and slower growth

My capex forecast already explains why I expect investment to fall after FY2029. Further tests were made to show the valuation consequences if that expectation is wrong. These tests only change the base-case operating assumptions while keeping terminal growth at 3% and the exit multiple at 12x; they do not replace my scenario probabilities or my headline target.

| Base-case stress test                                    | FY2035<br>revenue, \$bn | FY2035<br>unlevered<br>FCF, \$bn | Perpetual-<br>growth value,<br>\$/share | Exit-multiple<br>value,<br>\$/share |
|----------------------------------------------------------|-------------------------|----------------------------------|-----------------------------------------|-------------------------------------|
| Existing base forecast                                   | 832.5                   | 228.7                            | 616                                     | 867                                 |
| FY2031–35 capex held at \$230bn annually                 | 832.5                   | 161.8                            | 424                                     | 837                                 |
| FY2031–35 revenue growth reduced to 12%, 10%, 8%, 6%, 4% | 748.9                   | 192.4                            | 512                                     | 770                                 |
| Both changes together                                    | 748.9                   | 125.5                            | 320                                     | 740                                 |

These are model-date fair values, rounded to the nearest dollar, rather than 12-month targets. The tests include the effect of capex on depreciation, taxes and cash flow, and they do not change the headline valuation.

Sustained high capex near the peak reduces the fair value per share under both methods because both methods include the lower free cash flow during the forecast period. However, the perpetual-growth method uses the final year's free cash flow and assumes steady growth in cash flow beyond FY2035. Consequently, when the starting point for free cash flow is lower, this causes a large fall in the valuation under the perpetual-growth method. On the other hand, the EBITDA exit method calculates the value beyond FY2035 by multiplying FY2035 EBITDA by 12. As capex is not deducted from EBITDA, keeping the same EBITDA forecast and 12x multiple leaves this terminal value unchanged, even when the business needs to spend more to sustain it. This is why the higher-capex test reduces the perpetual-growth value from about \$616 to \$424 per share,

while the exit-multiple value only falls from about \$867 to \$837. In practice, a business that needs more capex to generate the same EBITDA could deserve a lower multiple, but this test holds the multiple fixed. Averaging the two methods does not remove this difference.

The tests show that my valuation depends on both continued advertising growth and the eventual easing of investment. In the combined stress, neither terminal method produces a model-date value above the reference share price. I retain my existing weights, but sustained high capex alongside weaker advertising would be a reason to revisit the forecast and recommendation.

## 5.4 Terminal reinvestment check

The FY2035 base case forecasts capex of \$160.7 billion, depreciation of \$146.1 billion and about \$1.1 billion of additional working capital. This equates to net reinvestment of about \$15.7 billion, or 6.4% of after-tax operating profit. Assuming this reinvestment share is maintained and profit grows at 3% indefinitely, this would imply about a 47% return on new invested capital. On the other hand, the 12x exit multiple's equivalent 4.94% perpetual-growth assumption would imply about 77% on the same basis.

Although these calculations include capex less depreciation and additional working capital, they exclude AI research spending from the investment base, as it is already treated as an expense in the operating profit calculation. Regardless, they show what my forecasts require: revenue and profit must keep growing through better advertising performance and more productive use of infrastructure even as physical capital expands more slowly. In FY2035, revenue grows 7% while net PP&E grows about 1.25%. I would review the long-run cash-flow assumption if evidence of those productivity gains weakens. [Methodology: Damodaran on terminal growth and reinvestment](#).

Model source: META\_Financial\_Model\_REPAIRED.xlsx, Valuation Summary C13:C21 and B25:D28. Scenario values are static captures; they must be refreshed if model assumptions change.

## 5.5 Discount rates and valuation timing

In order to discount the forecast cash flow and terminal values, I have used a WACC of 10.56%. The model's 10.80% cost of equity combines a 5.18% risk-free rate, a 1.24 beta and a 4.53% equity risk premium. However, for the perpetual-growth calculation, I have used a terminal beta of 1.00 assuming the business is already a mature business by then which yields a terminal WACC of 9.52%. However, these are valuation assumptions, and the actual cost of equity or terminal beta may vary.

One gap of my model is that it approximates the remaining FY2026 cash flow by assuming the cash flow throughout the year is distributed evenly and calculates the cash flow for the remaining year as 97/365 of the full-year forecast which represents the proportion of the days left after the 25 September valuation date. It also uses the reported cash and debt balances from 30 June 2026 which was reported in the Q2 earnings report. I have retained these balances because estimating the movements from June to September would require additional assumptions about cash generation, capex, borrowing, dividends and buybacks. As I could not find any reliable estimates of these values, I have decided to use the latest reported cash and debt balances. I also retain the proportional estimate of remaining FY2026 cash flow as a simple timing assumption. However, capex and cash generation are uneven during the year, so the remaining cash flow may differ from this estimate, and cash and debt may have changed since June.

The model's net-debt bridge uses reported long-term borrowing plus a \$10 billion debt-like item for the attorneys-general settlement (Section 7.3). Operating-lease costs are already included in

operating expenses, so operating-lease liabilities are not added to net debt, which would count them twice. Finance-lease principal is included in capex and feeds the PP&E forecast, and Meta's finance-lease liabilities are small. Leases that have not yet commenced will add to operating costs as they start; I do not forecast them separately, so my EBITDA margin assumptions must absorb them. Lease commitments should therefore not be deducted in full on top of costs already included in forecast cash flows.

## 6. Catalysts over the next year

I believe investors will continue to question Meta's return on its AI spending and will need more proof. However, quantifying how much revenue growth is directly attributable to AI spending is complex. Companies such as Google (Cloud) or Amazon (AWS) that sell AI services or cloud capacity can point to revenue from those services, which helps them build their case for the return on their capex. However, Meta also uses its AI infrastructure to improve its own systems, where the benefits are monetised through advertising rather than directly monetising it as a separate business. This makes it harder to separate the effect of AI investment from other sources of advertising growth.

As advertising growth has just started to pick up, I believe investors will continue to be sceptical until they see a sustained trend. Advertising revenue rose 33% year over year in [Q1 2026](#) and 27% in [Q2 2026](#). If Meta continues to report growth around the mid-20s over the coming quarters, alongside engagement and ad-performance gains, I expect investors to become more convinced that this is not a one-time peak. On the other hand, Muse's potential is harder to value. It is [currently available in the US and Canada](#); further expansion into Europe, the UK, and Australia, alongside reports of sustained use and paying customers, would give investors more confidence in its future revenue. The cited announcement does not provide launch dates for those markets, so I treat this as a potential catalyst rather than a confirmed rollout.

Another aspect to watch is whether Meta's next AI model performs near the frontier in independent evaluations. Muse already runs on Meta's own Muse Spark model, and a stronger successor could improve the agent and support its commercial potential. Meta says it has [larger models in development](#), but their future performance and release dates are uncertain. Meta's new [enterprise platform](#) creates an opportunity to generate a significant revenue stream from businesses.

Especially for the most capable AI models, I believe businesses and people who make money from using AI could be willing to spend much more than casual individual users. If frontier AI remains expensive, a casual user may find that a cheaper model is enough, while a business could justify the higher cost if it saves employee time, improves the quality of its work or generates additional revenue. Businesses can also use AI repeatedly across many employees and tasks, which could lead to much greater total spending than an individual subscription. I believe competition will further support this demand, as businesses will be willing to make extensive use of AI to improve their productivity and get ahead of their competitors. However, they will still need the benefits to outweigh the cost of the models, integration and human oversight, and may use cheaper models for simpler tasks. This is why I believe adoption and spending by businesses could become an important source of AI revenue. For Meta, whether businesses adopt and pay for Muse, Business Agent and related AI tools is therefore particularly important; growing business demand alone does not guarantee that Meta captures it.

At the same time, I think investors want more clarity on how much Meta will keep spending. Its \$13.7 billion [Reality Labs operating loss in 2022](#) helps explain concern that a costly new venture may take longer than expected to pay off, especially in Meta's case. If, over the next year, Meta provides clearer evidence of AI revenue and a more credible path for capex, I expect investor

confidence to improve and the shares could command a higher multiple. My 12-month target does not assume an additional near-term multiple expansion; a re-rating would be one way for the market price to move toward the model's fair value.

## 7. Investment risks

### 7.1 Advertising demand and competition

As mentioned, a recession could reduce consumer purchasing power, advertiser budgets and bids even if engagement remains strong. There are some structural risks Meta may face as well. Competitor platforms such as TikTok, YouTube, Google and Amazon could defend their audiences or develop new advertising formats around AI. Google has already described ads in AI Overviews and tests of ads in AI Mode, so fewer visits to traditional search pages would not automatically mean advertisers abandon Google. Rather, Google could direct its existing advertisers towards slightly different advertising formats within the same business. The predicted shift of spending toward Meta is therefore an assumption to monitor, rather than an established source of future revenue. [Source: Google on advertising in AI search experiences.](#)

I also assume that people will continue browsing and making impulse purchases even as agents handle more routine shopping. If agents instead reduce these purchases or filter out products promoted in social feeds, Meta's discovery advertising could be affected too. On the other hand, if people continue searching and shopping directly on Google and Amazon, the advertiser migration I expect could be smaller. I would watch actual changes in shopping behaviour rather than assume that agent adoption automatically benefits Meta.

### 7.2 AI spending, adoption and platform access

The main downside is that advertising slows while Meta continues spending heavily on AI and adoption of new products disappoints. My bear case assumes some restraint in spending; if committed projects are difficult to reduce, free cash flow could be weaker than that case implies. The capex and growth tests in Section 5 already show this exposure.

Looking only at a company's long-term debt may be misleading when it also has substantial lease commitments. Meta holds a 20% interest in the Hyperion data-centre venture it is developing with Blue Owl Capital. Because Meta does not consolidate the venture, the venture's debt does not appear under Meta's debt. Meta has separately agreed to operating leases for the facilities. Until those leases commence, the future payments are disclosed as commitments rather than recorded under Meta's operating lease liabilities. As of June 2026, Meta disclosed approximately \$12.31 billion of initial lease commitments beginning in 2029 and residual value guarantees with an aggregate threshold of approximately \$28 billion, which decreases over time. These guarantees could require payment of a property-value shortfall if Meta exits or does not renew a lease and the contractual conditions are met; they are not a certain \$28 billion payment.

Through the use of such arrangements, Meta can obtain infrastructure without funding all of its construction upfront; however, they also put Meta in a position where it could be unable to get out of the corresponding contracts in case of disappointing AI adoption. Therefore, I believe these commitments should be considered when considering the flexibility of Meta with its AI investments. [Source: Meta Q2 2026 Form 10-Q, Note 5.](#)

Moreover, platforms may block Muse from being used on their websites, which we have seen with Amazon. In September 2026, Amazon blocked Muse from its platform. Therefore, Meta's relations with other companies will be very important regarding Muse's adoption as well. A

wrong strategy could hence restrict adoption or make monetisation harder even if the underlying technology improves. [Source: Axios on Amazon blocking Muse](#).

I also believe it is important to watch how Apple reacts to personal AI agents such as Muse. If people use Muse to buy digital subscriptions or content directly from providers' websites instead of through Apple's in-app purchase system, this could reduce the commissions Apple earns. However, this does not apply in the same way to physical goods or hotel bookings, which already use payment methods outside Apple's in-app purchase system. Meta management says that Muse can make purchases through a browser and pay using Stripe's Link, which I believe could create further friction with Apple. This does not establish that Apple will block Muse or that all digital purchases avoid Apple's fees; the rules vary by market and purchase method. Therefore, for Meta, the risk is that Apple's app-review rules, payment requirements or limits on access to device features could make Muse less useful, harder to adopt and also harder to monetise on iPhones. Therefore, Apple's response to Muse and other upcoming AI agents is an important risk to consider. [Sources: Apple's App Review Guidelines, Sections 3.1.1 and 3.1.3 and Meta's Muse launch announcement](#).

### 7.3 Regulation and engagement

Authorities have started to realise the potential addictiveness of social media, especially for teenagers and children, and hence have started to implement restrictions on recommendation systems, platform design, or access by younger users, which could reduce their engagement and the ad opportunities that come with it. For example, Australia's social-media age restrictions require Instagram and Facebook to take reasonable steps to prevent under-16s from holding accounts. Moreover, in July 2026, the European Commission issued its preliminary findings on the potentially addictive design of social media platforms such as Instagram and Facebook, including their recommendation systems.

California also introduced a risk through SB 976, which requires platforms to obtain verifiable parental consent for covered personalised feeds provided to minors. A minor's account is subject to a default one-hour daily limit on access to covered personalised feeds and a default midnight-to-6 a.m. access restriction, both of which can be changed by a verified parent. The law also includes restrictions on notifications during the night and school hours, but those notification provisions were preliminarily blocked by a court. Litigation over the feed provisions has also continued, including an August 2026 district-court decision refusing to block them pending appeal. These regulatory changes undoubtedly create a risk to engagement and ad impressions; therefore, their implementation and legal challenges remain important to monitor. [Sources: California DOJ on SB 976, Section 27002, September 2025 appellate decision, and August 2026 court order](#).

Additionally, Meta agreed to a multistate settlement announced in August 2026. Meta's updated announcement describes approximately \$18 billion of payments over ten years, with part conditional on participation by YouTube and TikTok; California's announcement describes up to \$17 billion. I use Meta's figure here and flag the difference between the two announcements. According to Meta's 27 August update, the agreement received judicial approval and includes a default two-hour daily limit combined across Facebook and Instagram for under-18s in participating US states and territories, which requires parental permission to turn off, alongside night-time access restrictions and muted school-time notifications. Meta also expects approximately \$10 billion of Q3 2026 legal expense, outside its previous expense guidance. My model treats the settlement as a \$10 billion debt-like item, in line with Meta's expected accrual, which lowers each scenario value by about \$3.90 per share; the conditional portion is not included. Because the obligation is deducted in the equity bridge, the charge is not also deducted from FY2026 operating profit, so it is not counted twice. Following these regulations, further fines or settlements are a risk that

should be considered. Sources: [California DOJ's settlement announcement](#) and [Meta's updated settlement announcement](#).

Meta also faces separate state litigation in New Mexico. In March 2026, a New Mexico jury found that Meta had violated the state's Unfair Practices Act over child safety and imposed \$375 million in civil penalties; in August 2026, the judge also ordered a \$567 million harm-abatement fund, bringing the total to \$942 million. On 25 September 2026, my valuation date, a second New Mexico jury found about 43.9 million violations of the same Act in a case over Facebook's statements about privacy and data practices linked to the Cambridge Analytica scandal. The Act allows penalties of up to \$5,000 per violation, which implies a theoretical maximum of about \$219.5 billion, but the judge will decide the actual penalty, and Meta has said it disagrees with the verdict and can appeal. My model does not separately adjust for either New Mexico case. As a guide, each \$1 billion of penalties would lower my fair value by about \$0.39 per share. Sources: [CNBC on the March 2026 verdict](#), [Deseret News on the abatement fund](#) and [Source NM on the September 2026 verdict](#).

It is hard to quantify the revenue effect these regulations may have. It could be argued that minors' purchasing power is negligible in the grand scheme of users; however, advertisers may value their influence on household purchases and future customers, and broader platform-design rules could affect adults as well.

Sources: [Australian eSafety guidance](#) and [European Commission preliminary findings](#).

## 7.4 Terminal valuation

Around 90–93% of base-case enterprise value comes from terminal value in the two DCF methods. The 3% perpetual-growth assumption and 12x FY2035 EBITDA multiple therefore carry substantial weight in the result. My equal weighting expresses a judgment about Meta's mature business; it does not eliminate the need for sustainable cash generation after 2035.

## Disclosure and disclaimer

**Disclosure of interest.** At the time of publication (11 October 2026), the author held shares in Meta Platforms, Inc. (META) and may buy or sell them after publication.

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