Meta Voted a Hold for CUSP April 19th
By Jack Eckels and Noah Schalley

Our team examined Meta on April 19th, 2022. Meta is a social media company that makes most of its revenue through advertisements on Facebook, Instagram, WhatsApp and other platforms. They have also made recent investments in AR/VR or the "Metaverse." We wanted to bring the company to the class's attention for three reasons: 1) Apple's privacy changes effect of weakening advertisements' effectiveness, 2) A fundamental change in the business model and 3) an increasingly competitive landscape. Based on our analysis, we recommended the stock be sold from the CUSP.

Apple has made it more difficult to track users' data, therefore making it harder for Facebook to show targeted ads. Meta's management predicted this would decrease 2022 sales by approximately $10 billion. Since Apple has a significant history of protecting privacy, we as analysts believe this change will continue to have a significant impact on Meta.

We were also skeptical of Meta's change in its business model. Meta, previously named Facebook, changed its name and logo. They are spending a large amount of capital on transforming the business into a "metaverse" company. The class originally invested in a social media company, not an AR/VR company, so our investment thesis has fundamentally changed.

Facebook's operating landscape has also become an increasingly competitive space. New competitors, such as TikTok, have emerged. Facebook has responded with its own Instagram Reels feature (currently the company's fastest-growing product). However, TikTok, in particular, has been very successful at gaining users and popularity. In addition to TikTok, Elon Musk has also been rumored to start his own social media platform, and past president, Donald Trump, has launched his own medial platform, Truth Social. The future of these efforts remain uncertain, but one message is clear: The space is becoming more competitive and perhaps more fragmented.

Ultimately, the class decided not to sell the company because of valuation concerns. Our valuation analysis suggested the firm's stock is potentially trading at below intrinsic value. The stock is also trading at near P/E lows after investors reacted very harshly to the last earnings announcement. While it is increasingly difficult to predict the impact of recent events on Meta's future financial performance, the class managers decided the firm's stock was more attractive as a hold rather than a sell, voting by a narrow margin to retain the position in the CUSP.