

Stock Story



A dominant advertising franchise, with AI optionality the market is happy to ignore.

Founded in 2004 as Facebook, Meta Platforms has grown into one of the most widely used communication and media networks in history. Its Family of Apps – Facebook, Instagram, WhatsApp and Threads – now reaches more than 3.5 billion people every day, an audience without real precedent in scale or daily engagement. Alongside Alphabet, Meta sits at the centre of the global digital advertising market, the destination where a meaningful share of the world's attention, and therefore advertising budgets, is spent.

While durable economic moats are rare in consumer technology, where platforms can rise and fall quickly, we believe Meta's are unusually deep. Powerful network effects make its apps more valuable to each user as more people join; an enormous base of first-party engagement data allows it to match advertisers to audiences with a precision few rivals can replicate; and the sheer scale of its infrastructure and ad system creates cost and capability advantages that are difficult to challenge. Importantly, Meta reinvests heavily to defend and extend these advantages and has repeatedly shown an ability to adapt its products as consumer behaviour shifts, most recently in the pivot to short-form video.

What attracts us today is that artificial intelligence, widely feared as a disruptive threat across the technology sector, is already delivering tangible returns inside Meta's core business. Over recent years the company has rebuilt its recommendation and ranking systems around increasingly sophisticated AI models. The effect is visible across the platform: better algorithms have lifted engagement, with time spent and video watch time rising across both Facebook and Instagram; more dynamic approaches to

ad delivery have increased ad load and impressions per hour of engagement; and improved targeting, together with lower content-creation costs for advertisers, has allowed for higher ad prices without eroding the returns advertisers earn. The result has been a re-acceleration of revenue growth into the mid-to-high twenties. Critically, this was achieved with comparatively modest incremental spend, which is to say it was the cheap part. The benefits continue to compound as the models improve.

This cash generation, combined with the natural operating leverage of the platform, is being reinvested into a second and altogether more ambitious set of AI initiatives – the expensive part. Here, Meta is spending heavily to build frontier models through Meta Superintelligence Labs and the recently released Muse family. The market largely treats this as an ongoing cost, but we see it as a portfolio of very cheap options, which together could materially expand Meta's addressable market or lower its cost base. A frontier model is valuable internally and is also licensable to third parties, opening a route to API revenue of the kind earned by OpenAI and Anthropic. Personal and business agents could embed Meta's apps even more deeply into users' daily lives (a phrase that should perhaps come with a warning label) while creating fresh monetisation paths, from commission structures to premium, high-compute tiers for those who want the AI to try harder. Non-advertising services for the creators and businesses already on the platform, early signs of which include the rapid scaling of business AIs, offer a way to diversify revenue away from advertising. And in hardware, Meta's AI glasses are emerging as a best-in-class platform, with the number of daily users tripling year-on-year, an encouraging early signal of consumer adoption.

Every enduring investment case has its area of debate, and for Meta it is the scale, and occasional exuberance, of this investment. Capital expenditure guidance continues to rise, and the absolute numbers are large. However, at roughly 17 times forward earnings for a category-dominant business growing revenue above 20%, the market appears to be capitalising these AI investments into perpetuity as pure

cost, while extending Meta no credit at all for the revenue or profit they might ultimately produce. We do not think that is a coherent medium-term position, particularly given Mark Zuckerberg's track record. He has proven willing to invest aggressively where it is necessary to protect the franchise or where the return potential is real; however, as the "year of efficiency" demonstrated, he has also shown himself to be highly rational, even ruthlessly focused on growing the value of the business, and quick to retrench when spending fails to earn its keep.

We therefore see an unusually attractive asymmetry. Either these investments generate a meaningful return (and Meta's vast, deeply engaged user base is about as natural a distribution advantage as exists in technology) or management pulls back on them, as it has before. If we strip out the non-core AI investment, we estimate Meta could be earning operating margins close to 50%, against the roughly 35% expected in 2026. On that basis the shares trade closer to 12 times forward earnings, which we regard as very good value for a business of this quality, scale and durability.

We remain conscious of the risks. The most serious is the potential for significant legal liability arising from the platform's impact on adolescent mental health, an area of ongoing litigation and regulatory scrutiny. We are also alert to the possibility of regulation that fundamentally degrades the appeal of Meta's services to adult users, and to the risk that management remains committed to heavy near-term AI spending in a sharply deteriorating economic environment, which would pressure returns at precisely the wrong time.

On balance, however, we believe Meta represents a compelling long-term opportunity: a category-dominant advertising franchise, demonstrably able to convert AI into profit within its core business, available at a price that asks us to pay for almost none of the optionality that its investment is creating. That combination of proven quality, durable competitive advantages and an undemanding valuation supports its place as a high-quality, long-duration holding within a global equity portfolio.

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