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IS META THE BIG WHEEL ON FINANCIAL MARKETS?



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*The fund manager featured
in this document may
change during the product's
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► Most French cities set up a big wheel before Christmas, allowing everybody and especially children to have their first winter thrills.

What parallel with Facebook can be drawn¹?

Two points in particular: the stock is a US and global index heavyweight and thus highly visible. And since its stock price was divided by 4 and then multiplied by 5 over 36 months, it is a major attraction², especially for volatility fans. Whether or not we appreciate the man who founded the company or its business, it is undeniable that it is constantly in the news. Facebook also serves as a reminder that things change rapidly in the tech sector and that on today's markets even megacaps can trade like small and medium caps.

Such monumental price swings warrant some analysis. Note that we are not, or no longer, shareholders in Meta at the time of writing (see graph below).

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2. Not to mention its name change. Meta's returns from September 2021 (\$376.26) to November 4 2022 (\$90.79) and from November 4 2022 to February 2 2024 (\$475). Source: Bloomberg as of 02/02/2024.

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THE PRICE COLLAPSE: SEPTEMBER 2021-DECEMBER 2022. HOW THE STOCK PRICE WAS DIVIDED BY 3...

► **Governance:** the group announced massive investments in the metaverse³. Investors were not convinced that this was an appropriate move. At the same time, Sheryl Sandberg, Chief Operation Officer, left the company. She was seen as a historic figure in the company and many viewed her as an essential counterweight to Mark Zuckerberg. And then several surveys highlighted the impact of social media on young people, notably the link, that the company obviously knew about, with adolescent angst and suicide rates.

► **Growth:** not only was Meta's profitability undermined by its metaverse investment but the sudden arrival of TikTok on the international scene and user saturation in developed markets like Western Europe and the US put the brakes on growth. Advertisers began to look more seriously at budgets as concerns over a recession mounted.

It was then that rumours of a tie-up between Meta and Yahoo began to spread. Meta joined the US value⁴ indices.

THE REBOUND: DECEMBER 2022-FEBRUARY 2024. META'S SHARE PRICE IS MULTIPLIED BY 5...

► **Governance:** Mark Zuckerberg is not very interested in what investors think but he knows a very low stock price is not good for employee morale. And so he launched a massive redundancy programme affecting 20% of the workforce⁵ to send a positive message to markets (but not necessarily to his employees you might point out!) And just at that moment, generative AI⁶ burst onto the scene. Meta's first models were genuinely "leaky" but the company quickly sensed the moral and strategic interest⁷ of an aggressive

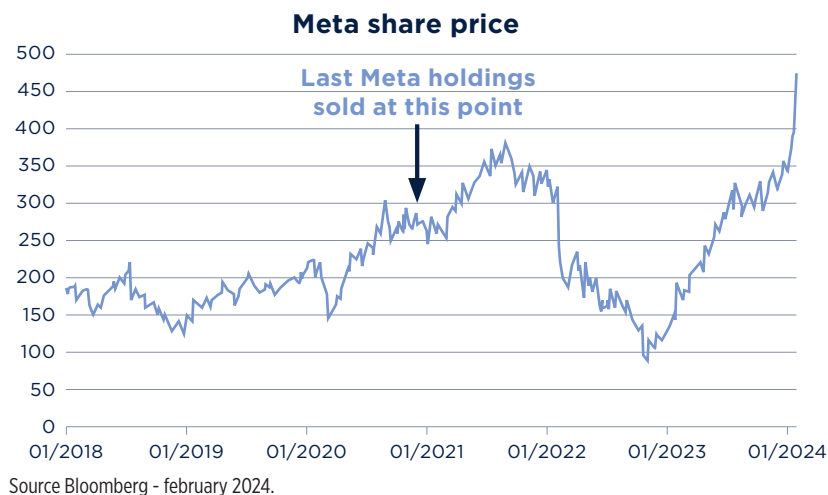
open-source strategy. Even if its monetisation will only be very indirect, the strategy enabled Meta to join in the AI rally. Facebook also seized the opportunity to launch a \$40bn share buyback programme.

► **Growth:** Chinese advertisers ride to the rescue! Temu, Shein and other dragons poured money into Meta to woo US and European consumers. Meta also decided over this period to massively boost ad density on its main platforms, one of its few remaining growth levers⁸. And self-inflicted damage by its rival Twitter and the run up to elections concerning almost 50% of the world's population in 2024⁹ will mean exceptional revenues for Facebook as it is the favoured medium at election times.

AND THEN?

► **Governance:** Meta's contribution to open source AI – and thus to all of humanity – is entirely due to Mark Zuckerberg. But Mark Zuckerberg is still Mark Zuckerberg. In spite of the decision to pay out a first dividend and launch a massive share buyback programme, he is still heavily focused on the metaverse and remains the only master on board. Nobody could stop him if he wanted to invest billions in wrought ironwork.

► **Growth:** Meta is still on trend for a sharp deceleration in medium term growth and has still not found new growth areas. Neither AI nor the metaverse will offset the fact that developed countries are saturated in advertising, whether in terms of user numbers or advertising density. Even if its rival TikTok were to be banned in the US, Chinese advertisers would no doubt riposte by withdrawing from Meta.



3. Metaverse: virtual world

4. Value stocks are considered as undervalued.

5. In November 2022, Meta laid off 11,000 people and another 10,000 in March 2023.

6. Generative artificial intelligence is a type of artificial intelligence (AI) system that can generate text, images, music, video or other media.

7. Meta cannot directly monetise AI but its open source approach can help prevent or reduce monetisation by its rivals Google, Microsoft and Amazon.

8. To be completely fair to Meta, note also the improved monetisation at its REELS (short videos) platform. Due to cannibalisation, its launch had slightly hit growth momentum in 2022.

9. In 2024, 4.1 billion people will be voting in presidential or parliamentary elections. Le Monde - January 2024.

And although Meta might be able to fight off regulators, they have already shown that they can block acquisitions likely to reinforce the group's quasi monopoly in social media.

There is therefore one point where governance and growth meet: we have to trust Mark Zuckerberg to find new growth areas to stop the big wheel grinding to a halt in 2025 and afterwards.

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