July 1, 2026 09:45 PM GMT

Meta Platforms Inc | North America

5 Takes On The Neocloud vs Hyperscaler Opportunities

We remain bullish the neocloud optionality, temporarily monetizing excess capacity in a compute constrained world, and paint multiple paths to $3+ (8%+) of EPS. But building a broader software offering would be challenging, requiring models/ software, personnel, go to market, and likely more capex.

What Happened? This morning, Bloomberg reported Meta is developing plans for a cloud business, setting up a potential new competitor with AWS, Azure, and Google Cloud. The plans reportedly include two potential offerings: **1)** hosted API/model-access service similar to AWS Bedrock (which would serve models including Muse Spark to developers) and **2)** a neocloud-like raw silicon offering. The effort would sit within Meta Compute, the business division they set up in January to manage the company's compute procurement. Note Meta has not commented on this morning's headlines.

1. Neocloud Option Much Easier than Fuller Service Hyperscaler: In our view, the hosted API/model-access business would have more technology, hiring, and execution risk. Meta's Muse suite of models would also need to improve...consider that their first family of Muse models didn't score well on TerminalBench and SWE Bench Verified (which are important to coding and third party use). Future Muse models would have to improve to compete against Gemini and other frontier models. In addition to being behind on leading models, we don't believe META has the personnel or software offerings to readily compete here, and competing with AWS/Azure/GCP would require salespeople with enterprise go to market expertise. As such, **a full API of models and applications would have significantly more execution risk and should be viewed as a "show me" vs. more scaled and established hyperscalers**. But the neocloud opportunity would require less hiring and "new muscle" building as we have seen other tech companies sell excess capacity without meaningful hiring/incremental team build.

2. META Seems to have Capacity Coming on to Lease: In 4 Products to Turn Meta Back into an "AI Winner" we detailed the Meta neocloud opportunity and remind investors that we estimate META will bring on ~2 GW / ~3.5 GW incremental owned-operated IT capacity in '26/'27 (on an estimated YE25 base of ~3 GW). Companies are compute constrained and continue to make compute budgeting decisions between training, inference or other products/uses….while also balancing near-term ROIC and long-term opportunities. But as a comparison, we expect hyperscalers like AMZN/GOOGL to add 5 GW/9 GW of IT capacity in '27...which speaks to the theoretical opportunity for Meta to have compute capacity to lease, even if on a temporary basis. Note that while we do not believe META is able to lease its estimated ~2.5 GW it is renting from third parties (like Coreweave, Nebius, GCP, ORCL and others) this capacity does give them more flexibility to rent out its

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Meta Platforms Inc (META.O, META US)
Top Pick

Internet | United States of America

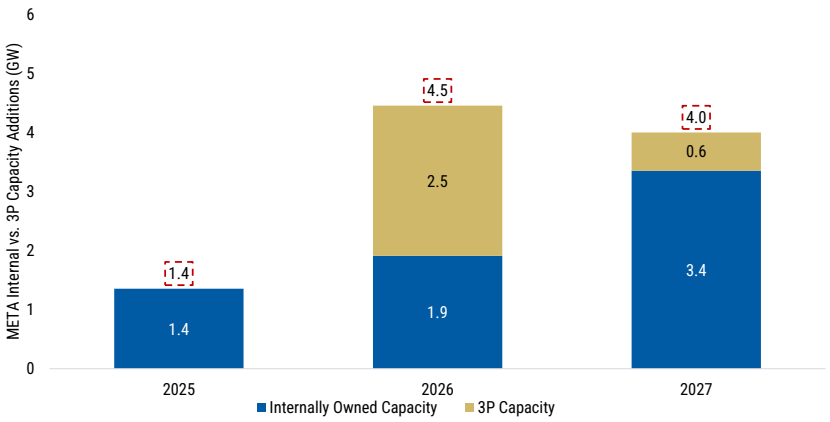
Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	**$775.00**
Shr price, close (Jun 30, 2026)	$563.29
Mkt cap, curr (mm)	$1,761,347
52-Week Range	$796.25-520.26

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own 1P capacity. These companies are covered by the MS Software team.

Exhibit 1: We see META adding ~2 GW/~3.5 GW of owned capacity in '26/'27



Source: Company Data, Morgan Stanley Research

3. Neocloud EPS Accretion is Meaningful... Other recent neocloud deals, detailed in GOOGL's $50/Watt Deal and What It Signals for GOOGL, AMZN, META and GenAI ROIC (17 Jun 2026) speak to the growing flexibility neocloud deals are being struck with (smaller sizes, shorter duration, dual-sided opt out clauses, etc). Our sensitivity table below showcases the potential EPS accretion, but for perspective, the EPS upside of monetizing this scarce resource is material….as **every 250 MW leased for 1 year at $40/Watt would add ~$3 (8%) to our '28 EPS.** ***Please let us know if interested in our interactive Meta Neocloud model.***

Exhibit 2: We estimate that every 250 MW leased for 1 year at $40/Watt could generate ~$3 of EPS upside in '28...

META Upside to '28 EPS from Neocloud Rental					
		MW of Capacity Leased Out			
		250	500	750	1,000
Revenue $/Watt	$20	$1.49	$2.97	$4.46	$5.94
	$25	$1.86	$3.71	$5.57	$7.43
	$30	$2.23	$4.46	$6.68	$8.91
	$35	$2.60	$5.20	$7.80	$10.40
	$40	$2.97	$5.94	$8.91	$11.88

Source: Company data, Morgan Stanley Research

Exhibit 3: ... or ~8% upside.

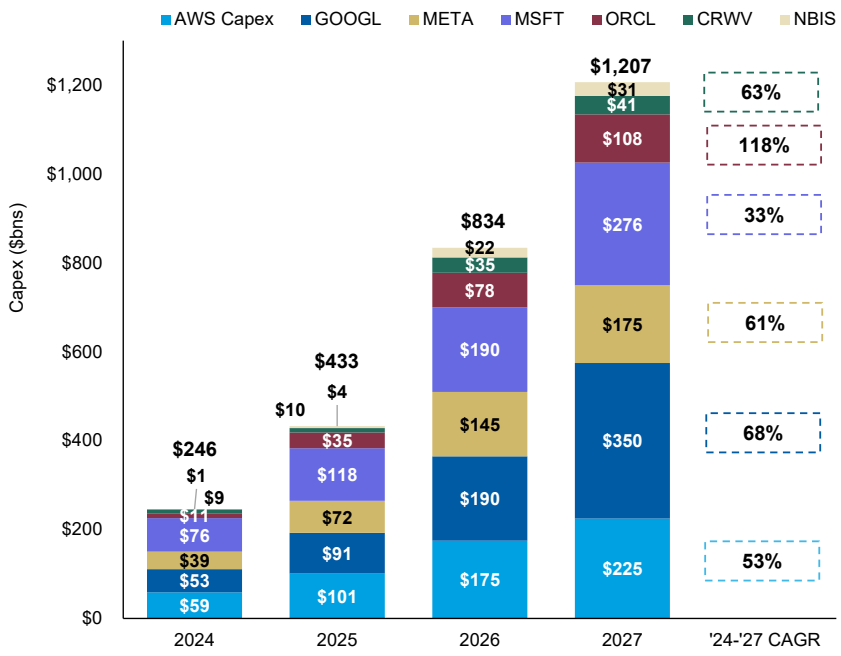
META % Upside to '28 EPS from Neocloud Rental					
		MW of Capacity Leased Out			
		250	500	750	1,000
Revenue $/Watt	$20	4%	8%	12%	17%
	$25	5%	10%	16%	21%
	$30	6%	12%	19%	25%
	$35	7%	15%	22%	29%
	$40	8%	17%	25%	33%

Source: Company data, Morgan Stanley Research

4. But 1P Products/Innovation Still Key to META Multiple: Our OW view on META is not based on it being a neocloud...it is based on the company developing new products for its platforms that drive more durable multi-year engagement and revenue growth. So while monetizing spare compute as a neocloud is a strong potential "EPS bridge" as we await new products to scale, MetaAI, business agents/ messengers, diffusion offerings, subscription revenue streams and others are front and center for us as detailed in 4 Products to Turn Meta Back into an "AI Winner". We look for more evidence of Meta developing and scaling these businesses to drive outperformance and a higher multiple.

5. And What about Capex? Our model currently assumes META capex grows to $175bn/$205bn in '27/'28 (from $145bn in '26) as they bring on ~3.5 GW of capacity in '27. **Note our model essentially assumes they are building capacity for their own 1P products but not a full functioning hyperscale business with an API/suite of models and tools.** And we assume the neocloud to be a temporary stop gap rather than permanent business to scale. As such, **the extent to which META is indeed going to focus on these opportunities (which as detailed above have higher risk) would put upward bias on our '27/'28 capex** (in order to build more long-term data center capacity for this new business offering). We look to learn more from the company over time on these key topics.

Exhibit 4: Across hyperscalers and neoclouds, we now see $1.2tn of capex in '27



Source: Company data, Morgan Stanley Research

Exhibits

Exhibit 5: META now trades at a ~35% discount to GOOGL on consensus earnings estimates, ~2X standard deviations below the long-term average



Source: Bloomberg, Morgan Stanley Research

Exhibit 6: Our $775 PT on META implies paying 23X on our '27 EPS of ~$34

Figures in mn	Bear	Base	Bull
EBITDA (FY27E)	$175,008	$185,526	$190,336
(X) Target Multiple	5.2x	11.1x	13.8x
Discount to 3-Year Average	-60%	-15%	5%
(=) Enterprise Value	913,540	2,066,756	2,617,122
(-) Net Debt (YE '26)	(3,550)	(9,654)	(14,089)
(+) Shares Outstanding	2,612	2,613	2,614
(=) Multiples Based Valuation	**$351**	**$795**	**$1,007**
DCF Based Valuation	**$548**	**$756**	**$994**
PT (Average of Multiples, DCF Valuation)	**$450**	**$775**	**$1,000**
% Upside	***-27%***	***26%***	***63%***
Implied '27 P/E	**14x**	**23x**	**28x**
'27 EPS	**$31.16**	**$34.16**	**$35.46**

Source: Company data, Morgan Stanley Research

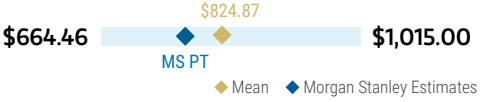
Risk Reward – Meta Platforms Inc (META.O) Top Pick

The Age of Efficiency

PRICE TARGET $775.00

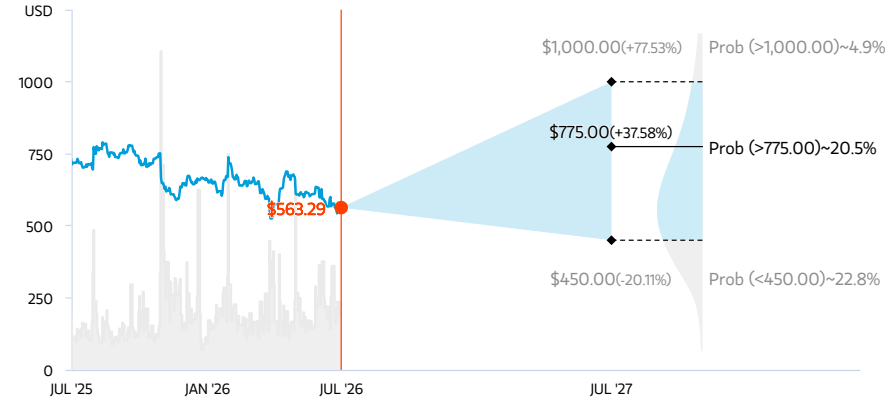
Our price target is determined using a discounted cash flow/long-term EBITDA multiple. It implies a ~23x '27 P/E Multiple. Our DCF uses an ~8% WACC and a ~3% terminal growth rate

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



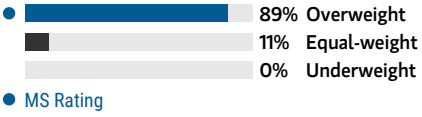
Key: Historical Stock Performance Current Stock Price Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 30 Jun 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- **A Structural Pivot to Focus on Multi-Year Efficiency, Productivity and Leaner Operations...** We think META's "year of efficiency" is more than just a 365 day change...but rather a structural and cultural pivot to operate leaner and with a greater focus on investor returns...even through investment.
- **Importantly, Revenue and Engagement Trends Are Also Improving Across META's Platform...** our industry and company conversations speak to progress driving incremental Reels engagement and monetization...and traction improving ad measurement/attribution in the post IDFA world.
- **3 Underappreciated "Call Options"** including 1) further AI driven upside, 2) subscription adoption and 3) click-to-message.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Self-help:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $1,000.00

Implied ~28x '27 P/E

AI investments drive increased engagement and lead to new products/tools, which supports outsized ad monetization and revenue growth. Execution on newer offerings (like click to message) could also contribute to higher than expected growth. META could also drive further efficiency gains and be more successful in closing the Reels monetization gap. Reality Labs losses moderate and macro environment is better than expected.

BASE CASE $775.00

Implied ~23X base case '27 P/E

Ad revenue grows ~28% in '26 as META's AI investments drive incremental Reels engagement/monetization and support improved performance and ad measurement/attribution across the Family of Apps. We also see META continuing to focus on efficiency and improving productivity.

BEAR CASE $450.00

Implied ~14x '27 P/E

Declines in engagement and/or evidence of Reels monetization ramping more slowly than expected could lead to lower growth and greater uncertainty. We also watch for any macro uncertainty, regulation that limits META's ability to target ads, Reality Labs losses widen more materially than expected, and higher capital intensity from mis-execution around the data center build. Any additional opex and capex could weigh on operating income growth and FCF.

Risk Reward – Meta Platforms Inc (META.O)

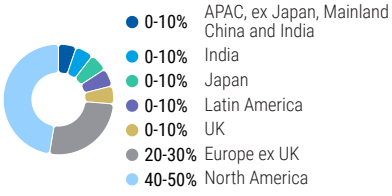
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Constant Currency % Growth (%)	22.5	26.2	20.5	18.3
Operating income (GAAP) ($, mm)	83,276	92,944	104,243	108,640
Consolidated Total Daily Active Users (mm)	2,239.9	2,294.5	2,344.5	2,389.2

INVESTMENT DRIVERS

- We are positive on META's structural pivot towards efficiency and improving revenue, engagement and Reels. We continue to monitor META's progress on call options (AI, subscriptions, click-to-message) and further investment in AI/data centers.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster than expected Reels monetization & higher engagement growth
- Increased benefit from AI investment
- Revenue driven by subscriptions and/or click-to-message ads
- Further efficiency improvements drive outsized FCF growth

RISKS TO DOWNSIDE

- Macro pressures/weaker consumer spend
- Regulation impacts ability to target ads
- Reality labs losses widen further
- Mis-execution risk could result in higher LT capital intensity

OWNERSHIP POSITIONING

Inst. Owners, % Active	55.5%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	12.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e

Sales / Revenue ($, mm)	237,140	252,737 / 256,708	258,240
EBITDA ($, mm)	114,318	142,342 / 148,942	170,068
Net income ($, mm)	71,171	83,874 / 85,256	93,618
EPS ($)	28.74	32.91 / 32.83	38.62

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research



Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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Global Stock Ratings Distribution

(as of June 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

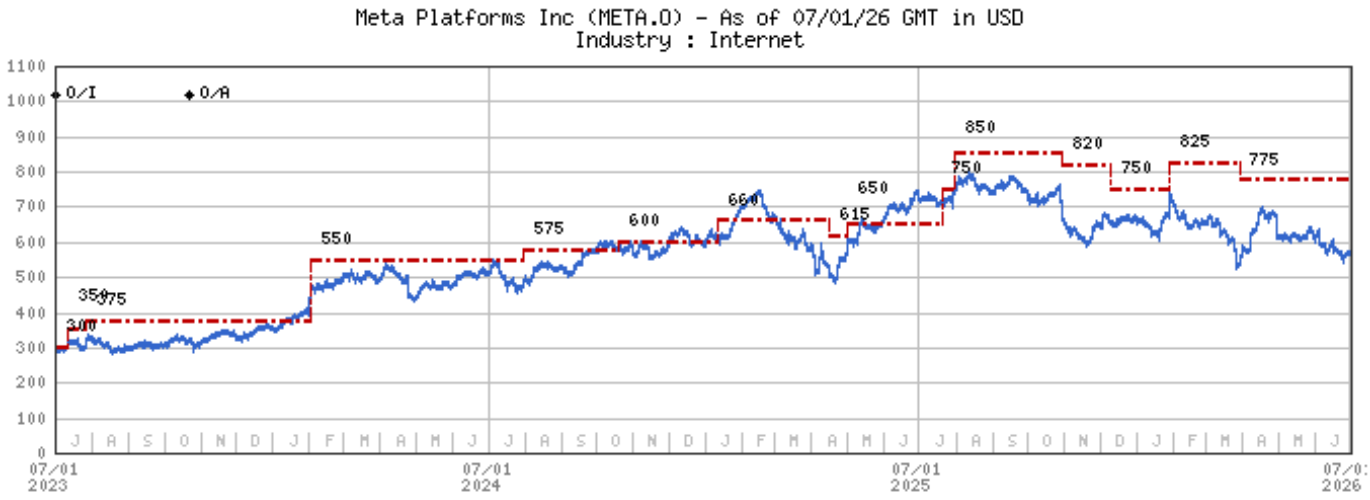
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 7/1/21 : O/I; 10/27/22 : E/I; 3/20/23 : O/I; 10/22/23 : O/A

Price Target History: 4/29/21 : 375; 7/28/21 : 400; 10/26/21 : 365; 1/19/22 : 395; 2/3/22 : 360; 3/2/22 : 325; 4/28/22 : 330; 5/31/22 : 300; 7/18/22 : 280; 8/18/22 : 225; 10/9/22 : 205; 10/27/22 : 105; 11/14/22 : 100; 1/17/23 : 130; 2/2/23 : 190; 3/20/23 : 250; 4/26/23 : 300; 7/12/23 : 350; 7/27/23 : 375; 2/2/24 : 550; 7/31/24 : 575; 10/20/24 : 600; 1/12/25 : 660; 4/16/25 : 615; 5/1/25 : 650; 7/20/25 : 750; 7/31/25 : 850; 10/30/25 : 820; 12/10/25 : 750; 1/29/26 : 825; 3/29/26 : 775

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/30/2026)
Brian Nowak, CFA		
Airbnb Inc (ABNB.O)	U (12/06/2022)	$143.10
Alphabet Inc. (GOOGL.O)	O (08/11/2015)	$357.37
Amazon.com Inc (AMZN.O)	O (04/24/2015)	$238.34
Booking Holdings Inc (BKNG.O)	O (02/23/2026)	$178.24
DoorDash Inc (DASH.O)	O (02/21/2024)	$184.53
Expedia Inc. (EXPE.O)	E (01/09/2019)	$255.88
Instacart (CART.O)	E (01/29/2024)	$47.35
Lyft Inc (LYFT.O)	E (10/24/2019)	$14.61
Meta Platforms Inc (META.O)	O (03/20/2023)	$563.29
Pinterest Inc (PINS.N)	O (07/20/2025)	$21.89
Reddit Inc (RDDT.N)	O (12/08/2024)	$197.76
Snap Inc. (SNAP.N)	E (07/22/2024)	$4.75
Uber Technologies Inc (UBER.N)	O (06/04/2019)	$72.66
Matthew Cost		
AppLovin Corp (APP.O)	O (04/10/2025)	$515.23
Compass, Inc. (COMP.N)	E (01/12/2026)	$12.55
Criteo SA (CRTO.O)	E (01/26/2016)	$18.28
DoubleVerify Holdings Inc (DV.N)	E (06/25/2024)	$11.22
Electronic Arts Inc (EA.O)	E (08/04/2021)	$205.04
Liftoff Mobile Inc. (LFTO.O)	E (06/29/2026)	$24.02
MNTN Inc (MNTN.N)	E (06/16/2025)	$10.85
Opendoor Technologies Inc (OPEN.O)	E (07/24/2023)	$4.62
Playtika Holding Corp (PLTK.O)	E (11/27/2022)	$3.72
Roblox Corporation (RBLX.N)	O (11/04/2024)	$57.95
Shutterstock Inc (SSTK.N)	E (07/28/2022)	$9.90
Take-Two Interactive Software (TTWO.O)	O (02/01/2018)	$249.98
Trade Desk Inc (TTD.O)	E (09/10/2025)	$18.08

Unity Software Inc (U.N)	O (09/02/2024)	$30.19
Webtoon Entertainment Inc (WBTN.O)	E (07/22/2024)	$11.42
Yelp Inc (YELP.N)	U (01/10/2019)	$26.25
Zillow Group Inc (Z.O)	E (04/18/2018)	$31.52
Nathan Feather		
Bumble Inc. (BMBL.O)	E (03/08/2021)	$3.20
Chewy Inc (CHWY.N)	O (10/31/2023)	$20.60
Duolingo Inc (DUOL.O)	E (02/27/2026)	$115.02
eBay Inc (EBAY.O)	O (04/18/2024)	$111.75
Etsy Inc (ETSY.N)	E (07/20/2025)	$72.83
FIGS, Inc. (FIGS.N)	E (02/29/2024)	$10.05
Grindr Inc. (GRND.N)	O (07/01/2026)	$15.69
Match Group Inc (MTCH.O)	E (04/18/2024)	$38.05
Peloton Interactive, Inc. (PTON.O)	E (03/14/2022)	$5.91
Revolve Group Inc (RVLV.N)	E (10/20/2024)	$23.26
WW International Inc (WW.O)	E (08/01/2025)	$15.98

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