Deutsche Bank
Research

Rating
Buy

North America
United States

TMT
Internet

Company
Meta

Reuters	Bloomberg	Exchange	Ticker
META.OQ	META US	NAS	META

Date
30 July 2026

Forecast Change

Price at 29 Jul 2026 (USD)	585.61
Price target	750.00
52-week range	789.46 - 525.72

Core Strength Funds the AI Build

Valuation & Risks

Benjamin Black, CFA
Research Analyst
+1-212-250-9218

Kunal Madhukar, CFA
Research Analyst
+1-212-250-9357

Raymond Wong
Research Associate
+1-212-250-2060

Benjamin Hui, Esq.
Research Associate
+1-212-250-2064

Meta's 2Q26 results were optically messy, but the underlying business and outlook were considerably stronger than the initial stock reaction suggests. Revenue exceeded the high-end of guidance on an FX-neutral basis, while the 3Q outlook implies limited deceleration against a materially harder comparison. The expense revision primarily reflected legal costs, and the narrower capex range accounted for improved supply visibility rather than another acceleration in infrastructure plans.

The larger takeaway is that Meta's core business has the momentum and earnings power to support its expanding AI ambitions. AI continues to drive measurable gains across engagement, advertising performance and creative, while the company is opening new revenue streams across Business Agents, paid messaging, subscriptions, APIs and enterprise products. Meta still has considerable runway to improve ranking and recommendations, supporting both ad inventory and pricing.

We also see a credible path for compute capacity sales in the near to medium term. The company is receiving offers at multiples of its compute cost, creating an attractive opportunity to monetize capacity while demand remains constrained. Longer term, Meta sees higher returns from selling intelligence through consumer and enterprise products. We think this preference for higher-value monetization, combined with strong current demand for raw capacity, increases the likelihood that Meta selectively sells compute while its agent, API and software businesses scale.

Infrastructure investment remains substantial, but the strategy is becoming clearer. The company is maximizing capacity through 2027 while preserving flexibility around server purchases beyond that period. We think Meta could install a greater proportion of internal silicon in the data centers it is now planning for 2028 and beyond, lowering accelerator costs, improving performance per watt and reducing reliance on 3P chips. All in all, we think investors would have preferred a FY27 capex guidance framework to help on expense visibility into the next year. **That said we do not discount the possibility that FY27 capex could represent peak intensity given management's comments around maximizing capacity through 2027 and preserving flexibility from 2028 onwards.** We think this could imply that the company could be potentially waiting to see if ROIC scales before committing to greater capacity investments.

Key changes

TP	800.00 to 750.00	↓	-6.2%
EPS (USD)	33.05 to 31.37	↓	-5.1%
Revenue (USDm)	255,194.8 to 254,889.3	↓	-0.1%
GAAP EPS	33.05 to 31.37	↓	-5.1%

Source: Deutsche Bank

While we understand the concerns around the magnitude of the infrastructure build, we contend the negative stock reaction places too much emphasis on near-term spending without fully accounting for the returns already visible across advertising and engagement. Moreover, new AI products, potential compute sales and a greater internal-silicon mix should also expand the return opportunity. **All in, we reduce our FY26 revenue / GAAP EPS expectations, but raise Capex estimates modestly and maintain our Buy rating. We do lower our target to $750 (from $800) based on 23x our FY27 GAAP EPS estimate, down from 24x previously to account for lower visibility on FY27 capex levels and lower peer valuation multiples.**

Results and Outlook Stronger Than the Initial Reaction Suggests

Meta's 2Q26 revenue increased 28% y/y to $60.8bn, or 27% FX-neutral. Revenue growth in fact exceeded the high-end of prior guidance after adjusting for currency, although it fell short of elevated buy-side expectations approaching the high-$61bn range.

The high-end of the 3Q revenue guide ($64bn) also points to limited underlying deceleration. At the high end, FX-neutral growth would decelerate by less than one point despite a comp that becomes more than three points more challenging. The outlook also incorporates a tougher impression comparison, the full effect of less-personalized ads in Europe and continued integrity enforcement.

The expanse guidance changes were less concerning than the headlines suggest. The increase in the low end of FY26 total expense outlook reflected the $2.4bn legal charge, while the underlying outlook would have declined excluding the additional $1.2bn of severance. The narrowing of capex guidance to $130bn to $145bn raised the midpoint by $2.5bn but left the high end unchanged. The revision reflected improved supply and project visibility rather than another acceleration in capacity plans.

Advertising Momentum Remains Peer-Leading at Scale

Family of Apps ad revenue increased 27% y/y, or 26% FX-neutral, with impressions up 14% and average price per ad up 12%. Engagement and user growth expanded inventory, while better campaign performance supported pricing.

AI is driving both sides of the advertising model. Instagram time spent increased double digits, while Facebook video time grew 9% globally and more than 10% in the U.S. and Canada. Advantage+ reached a $75bn annualized revenue run rate, and more than 9mn small businesses now use at least one AI creative tool.

Meta's newer models are also producing measurable conversion gains. The combination of its user-understanding, GEM ranking and sequence-learning models increased Facebook ad clicks by 8.3% and conversions by 15.7%. An early generative model within Instagram ads retrieval increased app-event conversions by 1%.

These results demonstrate that Meta is already generating returns on its AI infrastructure. Better recommendations expand engagement and inventory, while improved ad targeting and creatives improve advertiser returns and support pricing.

LLM-Native Recommendations Should Further Extend the Growth Runway

Meta now processes every public Reels and Feed post on Instagram through an

LLM that analyzes attributes including topic and tone. These richer signals improve Meta's understanding of content, user interests and intent.

Meta is also extending user histories and improving real-time discovery. Its largest Reels ranking release increased Instagram sessions by 15bps, with strength in reshares and time spent. More than half of recommended Instagram Feed content is now less than one day old, more than double the year-ago level.

Longer term, Meta wants to combine LLM reasoning with the scale and speed of its existing recommendation systems to create a unified architecture that can reason across organic content and advertising inventory.

We see considerable runway from this transition. **More granular content understanding should improve relevance and engagement, while deeper user histories should strengthen ad matching and conversion.** Applying the same intelligence across organic and paid content should compound gains across inventory, conversion and price.

Muse Image Creates Another Advertising Flywheel

Muse Image should expand consumer content supply while lowering advertiser creative costs. More than 9mn small businesses already use at least one Meta AI creative tool, and image-generation adoption more than doubled during the quarter.

Muse Image allows advertisers to generate and test more personalized, on-brand variants from existing assets. This should be particularly valuable for SMBs without large creative teams. More variants also provide Meta with additional performance data, improving its ability to identify the combinations of image, copy, product and audience that maximize conversion.

For consumers, generative media could potentially add a broad source of personalized content alongside posts from friends and creators further supporting engagement. All in all, we do believe that Muse Image could provide additive durable growth tailwinds to both engagement and conversion longer term.

AI Monetization Is Moving From Concept to Product

Business Agents represent the clearest new opportunity. More than 1mn businesses use Meta Business Agents each week across WhatsApp and Messenger, with the rollout beginning on Instagram as well. The company plans to begin charging through subscriptions and volume-based token pricing in 2H26.

Meta can leverage a business's social posts, advertising assets, website, catalog, CRM and inventory data to **create a turnkey sales and customer-service agent**. This should reduce onboarding friction and customer-acquisition costs relative to standalone enterprise products. Over time, the company plans to add customer insights, conversation summaries, growth recommendations and competitive intelligence. Longer term, pricing could shift toward results, with businesses paying when an agent generates a sale or another defined outcome. That would extend Meta's performance-based advertising model into commerce and customer service.

Paid messaging is already scaling. Family of Apps other revenue exceeded $1bn for the first time and increased 73% y/y, driven by paid messaging and subscriptions. Marketing messages remain the largest contributor, while utility and authentication volumes are growing rapidly. Business Agents should increase both the number and value of commercial conversations.

Subscriptions and APIs provide additional monetization layers. Meta One offers premium features and additional AI functionality, while Muse Spark 1.1 is available through Meta's public API and OpenRouter. Broader distribution and enterprise functionality should begin to attach more meaningful direct revenue to Meta's model investments.

Compute Sales Could Emerge in the Near to Medium Term

We think Meta could sell compute capacity sooner than investors expect. The company is receiving offers at meaningful multiples of its compute cost, demonstrating both the scarcity and market value of the capacity it is assembling.

Meta will continue to prioritize high-return internal workloads, including recommendations, ads, training, inference and new AI products. However, these uses do not preclude selective external sales, in our view. Capacity can come online ahead of internal demand, specific clusters may not match immediate workload requirements, and third parties may value near-term availability more highly than Meta does.

In our view, this creates an attractive near-to-medium-term opportunity to sell or lease capacity at premium pricing. Such transactions could improve utilization, generate direct revenue against infrastructure already embedded in investor forecasts and provide visible evidence of returns on the broader build. **Importantly, our model does not articulate the impact of compute sales, which would provide a high-margin upside to our estimates.**

Longer term, it appears the company believes selling intelligence offers a superior return profile compared to selling raw compute. **Business Agents, model APIs, consumer agents, coding tools and productivity products could command higher margins and create stronger customer relationships than infrastructure rental**. We therefore see a logical sequencing with Meta monetizing selected compute capacity while market pricing remains elevated, then retaining more infrastructure for higher-value intelligence products as those offerings scale. **<u>Bigger picture, we see raw compute sales as an attractive near-term business opportunity that bridges the period before Meta's broader AI software portfolio reaches scale.</u>**

Infrastructure Strategy Preserves Flexibility

Meta spent $31.1bn on capex including finance-lease principal payments during 2Q, reducing free cash flow to $784mn. However, operating cash flow increased to $31.9bn, which, in our view, demonstrates the core business's funding capacity as investments accelerate.

The company appears to be separating infrastructure investment into two time horizons. For 2026 and 2027, it is maximizing capacity against visible demand across recommendations, ads, model training, inference and new products. Third-party cloud agreements provide bridge capacity while Meta's owned infrastructure comes online.

For 2028 and beyond, Meta is securing long-lived assets including land, power, cooling, networking and data-center infrastructure while retaining flexibility around future server purchases. The 1GW El Paso venture illustrates this approach. The campus is expected to begin coming online in 2028. BlackRock-managed funds will own 80%, while Meta retains 20% and leases the campus through an initial four-year term with extension options. This structure reduces Meta's upfront funding requirement and preserves flexibility, although the lease commitments and residual-value guarantees still leave Meta with economic exposure.

Custom Silicon Could Improve the Economics of the 2028+ Build

We think Meta may deploy a greater proportion of its internal silicon in data centers coming online in 2028 and beyond. Securing land, power, cooling and networking today while delaying server purchases gives the company time to advance its chip roadmap before committing to the most expensive and technologically sensitive part of the build.

We think the company can continue leveraging Nvidia GPUs for frontier model training while shifting appropriate recommendation, ad-ranking and inference workloads onto internal accelerators. Those workloads operate at meaningful scale and often have more predictable requirements, which should make them natural candidates for purpose-built silicon.

A larger internal-silicon mix could improve infrastructure economics in three ways:

- **Lower accelerator costs**: Meta can avoid part of the margin embedded in merchant silicon and tailor chips to its own workload requirements.
- **Better performance per watt**: Purpose-built chips can reduce the power required for selected inference and recommendation workloads, increasing the amount of useful compute supported by each megawatt.
- **Greater supply flexibility**: Internal silicon reduces dependence on a limited number of suppliers and gives Meta another option when allocating equipped data-center capacity.

The cost implications could be significant since servers and accelerators represent a majority of the cost of an AI data center (we estimate up to 60%). Moreover, even modest reductions in accelerator cost or power consumption can materially improve total cost of ownership when applied across multiple gigawatts of capacity.

In terms of our forward model, we are not incorporating a large custom-silicon benefit into our estimates without greater evidence on production volumes, workload migration and performance. However, Meta's decision to defer 2028+ server purchases preserves a valuable optionally. By building the long-lived physical capacity now, the company will have the opportunity to populate it with the most cost-effective mix of 3P and internal silicon once performance and demand are clearer.

Expense Guidance Is Cleaner Than Reported

Meta raised FY26 expense guidance to $165-$169bn from $162-$169bn. The increase in the low-end incorporated the $2.4bn legal charge recognized during 2Q. The quarter also included $1.2bn of severance costs. Excluding both items, the underlying expense outlook would be lower than the prior range.

The May workforce reduction should improve the FY27 cost base. Meta ended the quarter with more than 75k employees, including 8k affected employees who should largely leave reported headcount by the end of 3Q. Excluding legal and severance charges, 2Q operating income increased 9% y/y rather than declining 8% as reported.

Infrastructure costs will continue to rise through depreciation, data-center operations, cloud commitments and token expenses. However, Business Agents, APIs, subscriptions and potential compute sales should increasingly attach revenue directly to those costs.

Results and Outlook

Meta's 2Q26 results were optically messy, but the underlying business and outlook were considerably stronger than the initial stock reaction suggests. Revenue exceeded the high-end of guidance on an FX-neutral basis.

Figure 1: 2Q26 Actuals

2Q26A - Actuals Versus Estimates

(In Millions, Unless otherwise stated)	Actual Reported	DB Est. (DBe)	Actual vs. DBe	Street Estimate	Actual vs. Street	2Q25A	y/y change	1Q26A	q/q change
Total Revenue	**$60,801**	$60,521	0.5%	**$60,245**	0.9%	**$47,516**	28.0%	**$56,311**	8.0%
Guidance		$58bn - $61bn for the Quarter							
Family of Apps	$60,370	$60,077	0.5%	$59,765	1.0%	$47,146	28.0%	$55,909	8.0%
Advertising	$59,363	$59,086	0.5%	$59,070	0.5%	$46,563	27.5%	$55,024	7.9%
Other	$1,007	$991	1.6%	$863	16.6%	$583	72.7%	$885	13.8%
Reality Labs	$431	$444	(2.9)%	$429	0.5%	$370	16.5%	$402	7.2%
Impressions Growth y/y	13.7%	14.1%	(41) bps	14.6%	(87) bps	10.8%	+295 bps	19.0%	(529) bps
Price Per Impression y/y	12.1%	11.2%	+93 bps	11.7%	+42 bps	9.7%	+244 bps	11.7%	+41 bps
GAAP Cost of Revenue	$11,330	$11,580	(2.2)%	$11,969	(5.3)%	$8,491	33.4%	$10,218	10.9%
GAAP Op expenses	$30,696	$26,171	17.3%	$27,031	13.6%	$18,584	65.2%	$23,221	32.2%
GAAP Total Costs/Expenses	**$42,026**	**$37,752**	11.3%	**$39,000**	7.8%	**$27,075**	55.2%	**$33,439**	25.7%
Guidance		$162bn - $169bn for the Year							
Operating Income	**$18,775**	**$22,769**	(17.5)%	**$21,530**	(12.8)%	**$20,441**	(8.2)%	**$22,872**	(17.9)%
Family of Apps	$23,394	$27,314	(14.4)%	$26,107	(10.4)%	$24,971	(6.3)%	$26,900	(13.0)%
Reality Labs	$(4,619)	$(4,545)	NM	$(4,451)	NM	$(4,530)	NM	$(4,028)	NM
OI Margin	30.9%	37.6%	(674) bps	35.7%	(486) bps	43.0%	(1214) bps	40.6%	(974) bps
Family of Apps	38.8%	45.5%	(671) bps	43.7%	(493) bps	53.0%	(1421) bps	48.1%	(936) bps
Reality Labs	(1071.7)%	(1023.7)%		(1038.2)%		(1224.3)%		(1002.0)%	
Net Income	**$15,848**	**$19,169**	(17.3)%	**$18,499**	(14.3)%	**$18,337**	(13.6)%	**$26,773**	(40.8)%
Net Income Margin	26.1%	31.7%		30.7%		38.6%		47.5%	
Diluted EPS	**$6.18**	**$7.45**	(17.1)%	**$7.15**	(13.6)%	**$7.14**	(13.4)%	**$10.44**	(40.9)%
Capex	**$31,078**	**$32,361**	(4.0)%			**$17,012**	82.7%	**$19,840**	56.6%
Purclases of PP&E	$30,116	$31,422	(4.2)%	$33,167	(9.2)%	$16,538	82.1%	$18,997	58.5%
Prin. Payments on Cap leases	$962	$939				$474	103.0%	$843	14.1%
Guidance		$125bn - $145bn for the Year							
Free Cash Flow (FCF)	**$784**	**$3,059**	(74.4)%	**$(1,215)**	NM	**$8,549**	(90.8)%	**$12,386**	(93.7)%
FCF Margins	1.3%	5.1%		(2.0)%	+331 bps	18.0%		22.0%	

Source : Company documents; Bloomberg Finance LP; Deutsche Bank

The company guided to **3Q26** revenue of $61-$64bn, or up 19-25% y/y (20-26% FXN). We are modestly reducing our revenue and opex estimates, to $63.1bn and $42.87bn from $63.3bn and $42.93bn, respectively, while our capex projection increases marginally.

Figure 2: Longer-Term Outlook

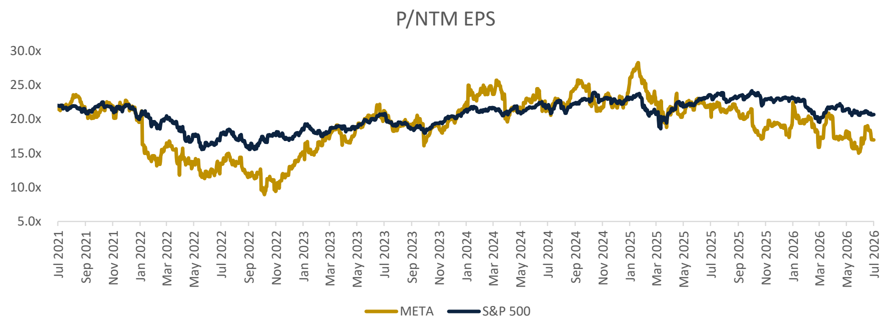
Key Estimates	3Q26E							4Q26E						
(In Millions,	DB Est. (DBe)			Street				DB Est. (DBe)			Street			
Unless otherwise stated)	Current	Previous	change	Estimate	DBe vs St.	3Q25A	y/y change	Current	Previous	change	Estimate	DBe vs St.	4Q25A	y/y change
Total Revenue	**$63,130**	$63,313	(0.3)%	**$63,170**	(0.1)%	**$51,242**	23.2%	**$74,647**	$75,049	(0.5)%	**$73,404**	1.7%	**$59,893**	24.6%
Guidance		$61bn - $64bn for the Quarter												
Family of Apps	$62,543	$62,726	(0.3)%	$62,461	0.1%	$50,772	23.2%	$73,453	$73,856	(0.5)%	$72,197	1.7%	$58,938	24.6%
Advertising	$61,370	$61,553	(0.3)%	$61,686	(0.5)%	$50,082	22.5%	$72,092	$72,494	(0.6)%	$71,231	1.2%	$58,137	24.0%
Other	$1,173	$1,173	---	$1,015	15.5%	$690	70.0%	$1,362	$1,362	---	$1,215	12.0%	$801	70.0%
Reality Labs	$588	$588	---	$525	11.8%	$470	25.0%	$1,194	$1,194	---	$1,077	10.8%	$955	25.0%
Impressions Growth y/y	10.1%	10.1%	---	12.9%	(289) bps	14.3%	(426) bps	9.1%	7.1%	+200 bps	11.8%	(272) bps	17.1%	(797) bps
Price Per Impression y/y	11.3%	11.7%	(33) bps	10.0%	+130 bps	9.8%	+150 bps	13.7%	16.4%	(277) bps	11.3%	+237 bps	6.1%	+751 bps
GAAP Cost of Revenue	$12,336	$12,516	(1.4)%	$13,082	(5.7)%	$9,206	34.0%	$14,746	$14,977	(1.5)%	$15,401	(4.3)%	$10,905	35.2%
GAAP Op expenses	$30,529	$30,415	0.4%	$29,480	3.6%	$21,501	42.0%	$33,669	$33,943	(0.8)%	$33,111	1.7%	$24,243	38.9%
GAAP Total Costs/Expenses	**$42,865**	$42,931	(0.2)%	**$42,562**	0.7%	**$30,707**	39.6%	**$48,415**	$48,921	(1.0)%	**$48,512**	(0.2)%	**$35,148**	37.7%
Guidance		$165bn - $169bn for the Year												
Operating Income	**$20,265**	$20,382	(0.6)%	**$21,008**	(3.5)%	**$20,535**	(1.3)%	**$26,232**	$26,129	0.4%	**$25,300**	3.7%	**$24,745**	6.0%
Family of Apps	$25,126	$25,200	(0.3)%	$25,505	(1.5)%	$24,967	0.6%	$31,732	$31,906	(0.5)%	$30,764	3.1%	$30,766	3.1%
Reality Labs	$(4,862)	$(4,818)	NM	$(4,570)	NM	$(4,432)	NM	$(5,500)	$(5,778)	NM	$(5,333)	NM	$(6,021)	NM
OI Margin	32.1%	32.2%	(9) bps	33.3%	(116) bps	40.1%	(797) bps	35.1%	34.8%	+33 bps	34.5%	+67 bps	41.3%	(617) bps
Family of Apps	40.2%	40.2%	---	40.8%	(66) bps	49.2%	(900) bps	43.2%	43.2%	---	42.6%	+59 bps	52.2%	(900) bps
Reality Labs	(827.5)%	(820.1)%		(870.1)%		(943.0)%		(460.7)%	(484.0)%		(495.1)%		(630.5)%	
Net Income	**$16,658**	$17,124	(2.7)%	**$18,073**	(7.8)%	**$2,709**	514.9%	**$21,335**	$22,037	(3.2)%	**$21,707**	(1.7)%	**$22,768**	(6.3)%
Net Income Margin	26.4%	27.0%	(66) bps	28.6%	(222) bps	5.3%	+2110 bps	28.6%	29.4%	(78) bps	29.6%	(99) bps	38.0%	(943) bps
Diluted EPS	**$6.48**	$6.64	(2.5)%	**$6.96**	(7.0)%	**$1.05**	515.0%	**$8.27**	$8.52	(2.9)%	**$8.40**	(1.5)%	**$8.88**	(6.8)%
Capex	**$39,583**	$39,507	0.2%			**$19,580**	102.2%	**$49,062**	$44,712	9.7%			**$22,137**	121.6%
Purclases of PP&E	$38,599	$38,599	---	$38,883	(0.7)%	$18,829	105.0%	$48,112	$43,835	9.8%	$45,765	5.1%	$21,383	125.0%
Prin. Payments on Cap leases	$984	$908				$751	31.0%	$950	$877				$754	26.0%
Guidance		$130bn - $145bn for the Year												
Free Cash Flow (FCF)	**$(3,947)**	$(5,332)	NM	**$(6,457)**	NM	**$10,625**	NM	**$(7,524)**	$(3,802)	NM	**$(5,663)**	NM	**$14,077**	NM
FCF Margins	(6.3)%	(8.4)%		(10.2)%	+397 bps	20.7%		(10.1)%	(5.1)%		(7.7)%	(237) bps	23.5%	

	FY2026E							FY2027E						
	DB Est. (DBe)			Street				DB Est. (DBe)			Street			
	Current	Previous	change	Estimate	DBe vs St.	FY2025A	y/y change	Current	Previous	change	Estimate	DBe vs St.	FY2026E	y/y change
Total Revenue	**$254,889**	$255,195	(0.1)%	**$253,177**	0.7%	**$200,966**	26.8%	**$306,709**	$304,188	0.8%	**$302,588**	1.4%	**$254,889**	20.3%
Guidance														
Family of Apps	$252,275	$252,568	(0.1)%	$250,179	0.8%	$198,759	26.9%	$303,311	$300,773	0.8%	$299,109	1.4%	$252,275	20.2%
Advertising	$247,848	$248,157	(0.1)%	$247,071	0.3%	$196,175	26.3%	$296,075	$293,563	0.9%	$294,854	0.4%	$247,848	19.5%
Other	$4,427	$4,411	0.4%	$3,970	11.5%	$2,584	71.3%	$7,236	$7,210	0.4%	$6,543	10.6%	$4,427	63.5%
Reality Labs	$2,614	$2,627	(0.5)%	$2,449	6.8%	$2,207	18.5%	$3,399	$3,415	(0.5)%	$2,945	15.4%	$2,614	30.0%
Impressions Growth y/y	12.9%	12.5%	+41 bps	14.1%	(118) bps	11.8%	+112 bps	6.7%	6.1%	+66 bps	10.7%	(400) bps	12.9%	(619) bps
Price Per Impression y/y	11.9%	12.4%	(55) bps	10.7%	+118 bps	9.2%	+265 bps	11.9%	11.5%	+40 bps	9.5%	+242 bps	11.9%	+4 bps
GAAP Cost of Revenue	$48,629	$49,292	(1.3)%	$50,634	(4.0)%	$36,174	34.4%	$68,622	$67,119	2.2%	$64,781	5.9%	$48,629	41.1%
GAAP Op expenses	$118,116	$113,751	3.8%	$112,968	4.6%	$81,515	44.9%	$135,655	$133,735	1.4%	$134,816	0.6%	$118,116	14.8%
GAAP Total Costs/Expenses	**$166,745**	$163,043	2.3%	**$163,602**	1.9%	**$117,689**	41.7%	**$204,277**	$200,855	1.7%	**$199,597**	2.3%	**$166,745**	22.5%
Guidance		$165bn - $169bn for the Year												
Operating Income	**$88,144**	$92,152	(4.3)%	**$90,629**	(2.7)%	**$83,277**	5.8%	**$102,432**	$103,333	(0.9)%	**$105,404**	(2.8)%	**$88,144**	16.2%
Family of Apps	$107,153	$111,321	(3.7)%	$109,417	(2.1)%	$102,470	4.6%	$116,692	$120,532	(3.2)%	$125,785	(7.2)%	$107,153	8.9%
Reality Labs	$(19,009)	$(19,169)	NM	$(18,541)	NM	$(19,193)	NM	$(14,260)	$(17,199)	NM	$(18,097)	NM	$(19,009)	NM
OI Margin	34.6%	36.1%	(153) bps	35.8%	(122) bps	41.4%	(686) bps	33.4%	34.0%	(57) bps	34.8%	(144) bps	34.6%	(118) bps
Family of Apps	42.5%	44.1%	(160) bps	43.7%	(126) bps	51.6%	(908) bps	38.5%	40.1%	(160) bps	42.1%	(358) bps	42.5%	(400) bps
Reality Labs	(727.1)%	(729.6)%		(757.2)%		(869.6)%		(419.6)%	(503.6)%		(614.4)%		(727.1)%	
Net Income	**$80,614**	$85,104	(5.3)%	**$84,720**	(4.8)%	**$60,459**	33.3%	**$83,811**	$86,704	(3.3)%	**$90,234**	(7.1)%	**$80,614**	4.0%
Net Income Margin	31.6%	33.3%	(172) bps	33.5%	(184) bps	30.1%	+154 bps	27.3%	28.5%	(118) bps	29.8%	(249) bps	31.6%	(430) bps
Diluted EPS	**$31.37**	$33.05	(5.1)%	**$35.43**	(11.5)%	**$23.49**	33.5%	**$32.28**	$33.31	(3.1)%	**$34.94**	(7.6)%	**$31.37**	2.9%
Capex	**$139,563**	$136,421	2.3%			**$72,215**	93.3%	**$213,817**	$212,279	0.7%			**$139,563**	53.2%
Purchases of PP&E	$135,824	$132,854	2.2%	$135,790	0.0%	$69,691	94.9%	$210,333	$209,055	0.6%	$177,152	18.7%	$135,824	54.9%
Prin. Payments on Cap leases	$3,739	$3,567				$2,524	48.1%	$3,485	$3,225				$3,739	(6.8)%
Guidance		$130bn - $145bn for the Year												
Free Cash Flow (FCF)	**$1,699**	$6,311	(73.1)%	**$825**	106.0%	**$43,585**	(96.1)%	**$(36,780)**	$(42,432)	NM	**$(4,692)**	NM	**$1,699**	NM
FCF Margins	0.7%	2.5%		0.3%	+34 bps	21.7%		(12.0)%	(13.9)%		(1.6)%		0.7%	

Source : Company documents; Bloomberg Finance LP; Deutsche Bank

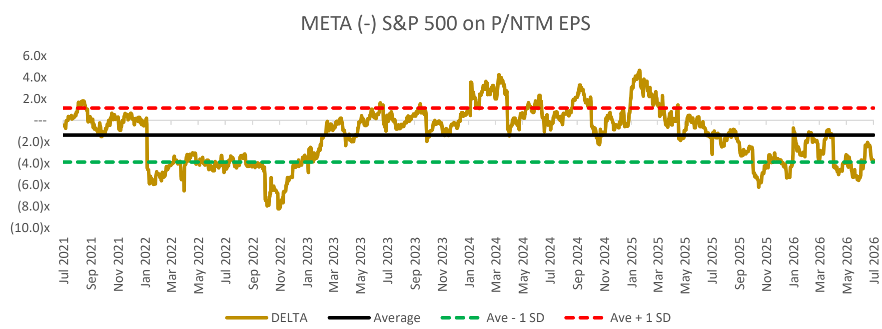
The shares continue to trade at a discount to the S&P 500 Index on P-to-NTM EPS, and while NTM EPS could be lower marginally after the HSD share price decline post-print, we think the discount relative to the index likely widened.

Figure 3: META P-NTM EPS Multiples Versus S&P 500



Source : Bloomberg Finance LP; Deutsche Bank

Figure 4: Diving Deeper into the Delta… META likely trading at >1 standard deviation below the historical average



Source : Bloomberg Finance LP; Deutsche Bank

Meta's results reinforce our view that the company is funding its AI ambitions from a position of core-business strength. Advertising growth remains broad-based, AI is producing measurable gains across engagement and conversion, and several new revenue streams are moving toward commercialization.

We see a credible near-to-medium-term opportunity to sell compute at attractive premiums, followed by a higher-return opportunity to monetize intelligence through agents, APIs and software. Beyond 2027, greater use of internal silicon could lower the cost of equipping Meta's new data centers and improve returns on the broader infrastructure build.

The key unresolved issue remains FY27 capex. Investors would have preferred a numerical framework to rightsize expectations and remove the overhang. However, **we believe Meta has high-return uses for near-term capacity, external compute demand provides an additional monetization path, and deferred server decisions preserve flexibility around its 2028+ hardware mix.**

All in, **we reduce our FY26 revenue / GAAP EPS expectations, but raise Capex estimates modestly and maintain our Buy rating. We do lower our target to $750 (from $800) based on 23x our FY27 GAAP EPS estimate, down from 24x previously to account for lower visibility on FY27 capex levels and lower peer valuation multiples.**

Risks*: Privacy changes that reduce ability to measure advertising outcomes or target advertising would impact sentiment. Growing competition leading to declining engagement would reduce ad products' attractiveness. Macro deterioration.*

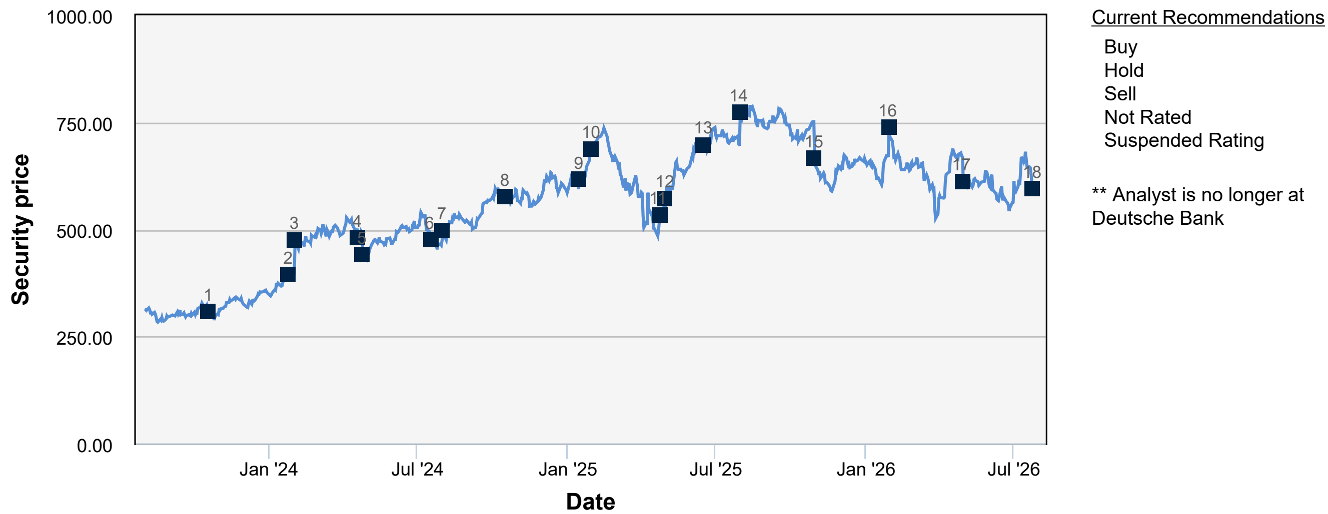
Appendix 1

Important Disclosures

*Other information available upon request

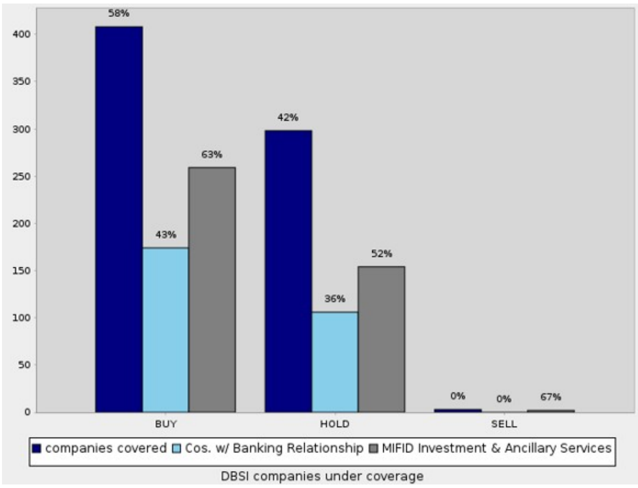
Historical recommendations and target price: Meta (META.OQ)

(as of 07/29/2026)



1.	10/20/2023	Buy, Target Price Change USD 385.00, Current Price USD 308.65 Benjamin Black, CFA
2.	01/26/2024	Buy, Target Price Change USD 450.00, Current Price USD 394.14 Benjamin Black, CFA
3.	02/02/2024	Buy, Target Price Change USD 525.00, Current Price USD 474.99 Benjamin Black, CFA
4.	04/19/2024	Buy, Target Price Change USD 540.00, Current Price USD 481.07 Benjamin Black, CFA
5.	04/25/2024	Buy, Target Price Change USD 500.00, Current Price USD 441.38 Benjamin Black, CFA
6.	07/18/2024	Buy, Target Price Change USD 525.00, Current Price USD 475.85 Benjamin Black, CFA
7.	08/01/2024	Buy, Target Price Change USD 585.00, Current Price USD 497.74 Benjamin Black, CFA
8.	10/17/2024	Buy, Target Price Change USD 650.00, Current Price USD 576.93 Benjamin Black, CFA
9.	01/15/2025	Buy, Target Price Change USD 705.00, Current Price USD 617.12 Benjamin Black, CFA
10.	01/30/2025	Buy, Target Price Change USD 800.00, Current Price USD 687.00 Benjamin Black, CFA
11.	04/24/2025	Buy, Target Price Change USD 650.00, Current Price USD 533.15 Benjamin Black, CFA
12.	05/01/2025	Buy, Target Price Change USD 670.00, Current Price USD 572.21 Benjamin Black, CFA
13.	06/17/2025	Buy, Target Price Change USD 770.00, Current Price USD 697.23 Benjamin Black, CFA
14.	07/31/2025	Buy, Target Price Change USD 930.00, Current Price USD 773.44 Benjamin Black, CFA
15.	10/30/2025	Buy, Target Price Change USD 880.00, Current Price USD 666.47 Benjamin Black, CFA
16.	01/29/2026	Buy, Target Price Change USD 920.00, Current Price USD 738.31 Benjamin Black, CFA
17.	04/30/2026	Buy, Target Price Change USD 810.00, Current Price USD 611.91 Benjamin Black, CFA
18.	07/24/2026	Buy, Target Price Change USD 800.00, Current Price USD 595.19 Benjamin Black, CFA

Equity rating dispersion and banking relationships



Equity Rating and Dispersion Key

The Equity Rating Dispersion Chart depicts the following:

The proportion of recommendations that are rated "buy", "sell" and "hold" over the previous 12 months. This is shown for securities issued in the stated region e.g. "Europe Universe". See rating definitions below. This is represented by the "Companies Covered" bars in the chart. The percentage value displayed above the bar is the proportion as a percentage. E.g. 50% above the “buy” / “Companies Covered” bar means that 50% of DB’s equity research covered companies over the past 12 months have a “buy” rating.

Next to each of the three respective bars showing the proportion of "buy", "sell" and "hold" recommendations we provide two additional bars to show:

- The proportion of "buy", "sell" or "hold recommendations where Deutsche Bank and or/Affiliates provided MIFID Investment or Ancillary Services in the past 12 months. This is represented in the "MIFID Investment and Ancillary Services" bar. The percentage value displayed above the bar shows the proportion of Companies Covered with the given rating where DB has also provided MIFID Investment and Ancillary Services in the past 12 months. E.g. 50% above the “Cos. w/ MIFID Investment and Ancillary Services” bar means 50% of the Companies Covered with the rating stated have also received MIFID Investment and Ancillary Services from DB.

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Deutsche Bank AG Deutsche Bank Place Level 16 Corner of Hunter & Phillip Streets Sydney, NSW 2000 Australia Tel: (61) 2 8258 1234	Deutsche Bank AG Equity Research Mainzer Landstrasse 11-17 60329 Frankfurt am Main Germany Tel: (49) 69 910 00	Deutsche Bank AG Filiale Hongkong International Commerce Centre, 1 Austin Road West,Kowloon, Hong Kong Tel: (852) 2203 8888	Deutsche Securities Inc. 1-3-1 Azabudai Azabudai Hills Mori JP Tower Minato-ku, Tokyo 106-0041 Japan Tel: (81) 3 6730 1000
Deutsche Bank AG 21 Moorfields London EC2Y 9DB United Kingdom Tel: (44) 20 7545 8000	Deutsche Bank Securities Inc. The Deutsche Bank Center 1 Columbus Circle New York, NY 10019 Tel: (1) 212 250 2500	Deutsche Bank AG Filiale Singapur One Raffles Quay, South Tower, Singapore 048583 TeL: +65 6423 8001	