

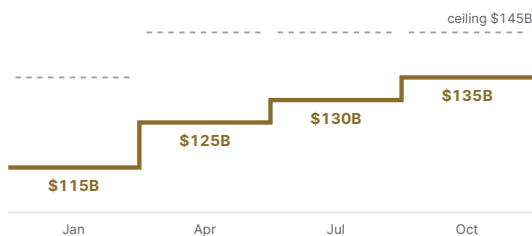
EQUITY VALUATION · TECHNOLOGY · META · 21 OCTOBER 2026

Meta (META) — The 2027 Bill Is Already Signed

Meta's third quarter grew revenue 26% and operating income 11% before a \$9.9 billion settlement charge. The 10-Q filed the next day schedules \$121 billion of non-cancelable commitments for 2027, up \$40 billion in three months; management gave no 2027 capital-spending number and announced a non-voting share class that can be used, among other stated purposes, to raise capital. On our July method the quarter would have lifted fair value from \$370 to \$386. We now value Meta at \$312.11, mainly because we no longer weight a price-to-earnings value while its earnings are not turning into cash; each change is set out for the reader. At the \$697.52 close on the day of the release the stock traded 123% above it.

TON618 CAPITAL RESEARCH · AS OF 21 OCTOBER 2026

The floor of the 2026 capex guide, by update

**Every quarter the floor moves one way.**

The third quarter grew revenue 26% and operating profit 11% before a \$9.9 billion settlement. The filing behind it shows \$121 billion of commitments already due in 2027, up \$40 billion in three months.

THE PRINT · THE BILL · THE FUNDING · THE VALUE · THE RECEIPT · THE TRIPWIRES

In July we valued Meta as a company that pays for its machines twice: in cash when it buys them, and in earnings as they depreciate. The third quarter enlarged both payments. The 10-Q schedules \$121 billion of commitments for 2027, mostly cloud capacity, servers and data-center energy, not all of it capital spending; depreciation grew 44%, on a server life the company left at five and a half years. The quarter also brought a third instrument. Meta has bought back no stock this year, ended September with net debt near zero after a \$25 billion bond, and on 21 October announced a non-voting Class C stock described as usable for "capital raising, employee compensation, acquisitions, other general corporate purposes." This note asks what the bill for this build is worth to a shareholder at \$697.52.

THE QUESTIONS**What this note answers**

1. What did the quarter earn once the \$9.89 billion charge is set aside, and how large was the beat on a like-for-like basis?
2. How big is the capital bill now — for the fourth quarter, for 2027, per dollar of profit — and who pays it?
3. What is Meta worth after the print, with every growth stage argued, what moved our number from \$370, and what changed in how we value it?
4. What does \$697.52 require of the next seven years, against what the company has said?
5. What would change our view, in observable terms and on dated tests?

\$312

PROBABILITY-WEIGHTED FAIR VALUE A
SHARE - BEAR \$114 / BASE \$295 /
BULL \$543 AT 25 / 50 / 25

The view. We value Meta at **\$312.11** a share, from \$370 in July. At the \$697.52 close of 21 October the price is 123% above fair value, and even the bull case (\$543.18) sits 22% below it. The quarter itself raised our value: on July's method, to \$385.51. Two changes to the cash-flow model net to +\$4.19. The fall to \$312.11 is a separate judgment: we no longer weight a price-to-earnings value at 40%, because Meta's earnings are not turning into cash a shareholder can have (free cash flow was 21% of net income in the first nine months). That lens, on 2027 earnings as reported, gives \$598, the closest any probability-weighted lens comes to the price. The next session closed at \$648.85, -7.0%, still 108% above our value. The Fund holds no position.

+26%

Q3 revenue growth, \$64.6B;
operating income excluding the
charge +11%

\$121B

commitments due in 2027, from
\$82B at 30 June

\$49.2B-\$59.2B

fourth-quarter capex the full-year
guide implies, against \$34.9B in Q3

34%

return on invested capital, charges
added back, against a 10.9% cost
of capital; 45% a year ago

Terms used throughout, defined once. **Capex:** capital expenditures including principal payments on finance leases, the basis on which Meta guides. **Ex-charge:** a figure with the disclosed one-time legal and severance charges removed, as Meta itself presents them. **The dose:** capex divided by net income for the same period, the ratio our depreciation series carries for every company. **Free cash flow to equity (FCFE):** net income plus depreciation, less capex, plus net new borrowing; share-based compensation stays an expense and is never added back. **Re-mark:** the house restatement of server depreciation onto a three-year life, against Meta's five to 5.5 years; a model estimate, not a restatement, and Meta's reported figures comply with GAAP. **Growth stages:** the forecast is split into periods, each lasting as long as the thing that drives it; every length is argued in the stage table. **ROIC:** after-tax operating income over invested capital (equity plus debt less cash), trailing twelve months, against the weighted average cost of capital (**WACC**). **Terminal growth:** the rate a business grows at forever after the forecast ends, set here from long-run GDP projections. **Fair value:** the FCFE value, probability-weighted across three scenarios at 25 / 50 / 25; the price-to-earnings value July weighted at 40% is shown as a cross-check (\$4).



THE CASE FOR THE PRICE

The case for the price, in the company's terms

On its own terms the quarter was strong. Revenue of \$64.6 billion beat the top of the \$61–64 billion guide and the \$63.37 billion LSEG consensus, on 10% more ad impressions *and* a 14% higher average price per ad. Operating income excluding the charge rose 11% to \$22.88 billion while absorbing 45% higher cost of revenue and 32% more research spending, with headcount down 15% to 66,775. The fourth quarter is guided to \$73–76 billion, 22–27% growth, and management wrote that the AI investments "position us to sustain strong overall revenue growth throughout 2027." Reality Labs losses are guided down to about \$15 billion next year from \$18–19 billion.

Management called Muse "one of our most successful launches ever": more than 10 million people in the US and Canada set up the personal agent in six weeks, and about a quarter use it daily. Meta One passed 15 million subscriptions and trials; partnership ads passed a \$15 billion run-rate, up 97%. The chief executive expects Muse's cost efficiency to improve "more than 10x in the next year" even as total serving costs rise with its users, which is what would turn a compute-hungry product into a profitable one. The balance sheet carries \$82.4B of cash against \$83.7B of debt, the teen mental-health claims of 52 attorneys general are settled, and the Class C stock lets the company fund the build without giving up control.

The arithmetic offered for the price is simple. On our own base-case 2027 earnings of \$32.02 a share, \$697.52 is 21.8 times earnings, the top of the 16–22 range our price-to-earnings cross-check uses, for a company growing revenue 26% with a 34% return on capital. Price each scenario's 2027 earnings as reported at our multiples and the weighted result is \$598, 14% below the price. On this view the cash-flow model is low only because it charges seven years of build-out against equity before the build earns. And the build is not a fixed cost: in 2023, which management called its "year of efficiency", Meta cut capital spending from \$32.0 billion to \$28.1 billion, and it could do so again. Nor is the cost of equity a constant: the 1.35 beta behind it was measured on two years of daily prices, and a reader who believes Meta's risk is closer to the market's will discount at a lower rate.

This note tests four of these claims: the quarter's ex-charge earnings and their basis; the capital bill against the cash the business generates; the price-to-earnings case on reported and re-marked earnings; and the growth the price implies through 2033. It cannot test, inside a seven-year model, whether Muse and the enterprise platform become revenue lines large enough to carry the capital committed for them. Management gives them no size, and neither do we beyond a point of growth in the base case and four to five in the bull. That is where the price's case lives, and it is carried as a scenario and a tripwire, not a verdict.

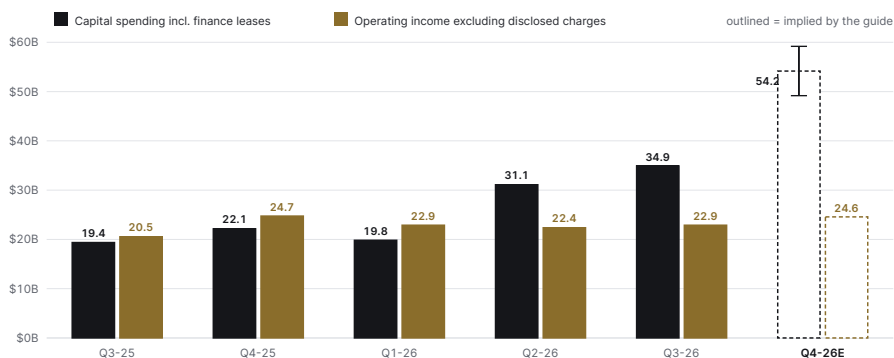
THE PRINT

What the quarter earned, and what the beat was made of

Revenue was \$64.60 billion, up 26% on both a reported and constant-currency basis. Costs and expenses were \$51.61 billion, up 68%, of which \$9.89 billion was the charge for the August agreement with 52 attorneys general across US states, territories and the District of Columbia to resolve teen mental-health litigation. Reported operating income was \$12.99 billion, a 20% margin. Excluding the charge it was \$22.88 billion, a 35.4% margin, against 40.1% a year earlier and 36.8% in the June quarter on the same basis. Net income was \$9.86 billion, or \$3.83 a diluted share; excluding the charge, \$7.40.

The beat, like for like. The brokerage feed shows \$7.40 against a \$5.74 consensus, a 29% beat. The two figures are not on the same basis. The settlement was announced in August, and the compiled figures show analysts split on whether to model the charge: Investing.com carried a GAAP-basis consensus of \$3.57, CNBC reported \$5.75 and said it was "not clear" the \$3.83 was comparable, and MarketBeat showed \$6.54. A pool between \$3.57 and the ex-charge level mixes both treatments and cannot measure a surprise. The charge is \$3.57 a share after tax, so analysts behind the \$3.57 GAAP consensus who carried it would have been near \$7.14 ex-charge, close to the June quarter's \$7.18 consensus (our inference, not a compiled number): a beat of about 26 cents, roughly 4%. MarketBeat's pool can sit only at or below a pure ex-charge consensus, which caps the beat at 13%. Either way it is a fraction of 29%; on revenue, where the basis is clean, the beat was 1.9% against LSEG. Two more distortions: the charge is mostly non-deductible (a 24% tax rate reported, 17% without it), so it cost \$9.19B after a tax shield of only \$0.70B; and the reported 265% EPS growth compares with a year-ago \$1.05 that carried a one-time tax charge (an 87% tax rate that quarter). Against the year-ago \$7.25 excluding that charge, ex-charge EPS grew 2.1%.

EXHIBIT 1 — CAPITAL SPENT AGAINST OPERATING INCOME EARNED, BY QUARTER



How to read it. Billions of dollars a quarter, Q3 2025 to Q3 2026, plus the fourth quarter the guides imply (outlined; the bracket spans the capex range the \$135–145 billion guide allows). Black is capital spending including finance leases; gold is operating income excluding disclosed one-time charges. Compare the two bars in each pair. The one thing it shows: operating income has held between \$20 and \$25 billion a quarter while capital spending stepped up every quarter since March, with the largest step implied for the fourth.

The cash statement shows what the earnings cost. Operating cash flow was \$32.79 billion and capex \$34.91 billion, up 80% on the year, so free cash flow was negative \$2.12 billion, the first negative quarter of the AI build. Share-based compensation was \$7.36 billion, 11.4% of revenue; the house expenses it. No shares were repurchased, for a third quarter running, and the \$25.03 billion authorization is untouched. Cash and marketable securities fell to \$82.45 billion

from \$90.26 billion in June, with a further \$12.83 billion restricted, \$10.80 billion of it in escrow under infrastructure purchase agreements until 2028–30. Against \$83.67 billion of debt, net debt is about \$1.2B.

The reaction, one data point. The stock closed at \$697.52 on 21 October, before the release, traded at \$712.05 at 8:29 p.m. ET (+2.1%) after reaching \$748.80, and closed the next session at \$648.85, –7.0%, on 40.6 million shares against 29.2 million the day before: the third consecutive earnings session with a sharp fall, after –8.6% on 30 April and –8.0% on 30 July. The house values the company on the anchor close. One session says more about positioning than about the bill, which is where the quarter's real news sits.

THE BILL

The bill: the floor, the fourth quarter, and 2027

The 2026 capex guide has moved one way all year: \$115–135 billion in January, \$125–145 billion in April, \$130–145 billion in July and, on 21 October, \$135–145 billion, "narrowed from our prior outlook." The ceiling has not moved since April; the floor has risen \$20 billion. Nine months of spending, \$85.82 billion, leave \$49.2B to \$59.2B for the fourth quarter alone, \$54.2B at the midpoint, 55% above the third quarter's \$34.91 billion. Even the floor implies a 41% step in one quarter.

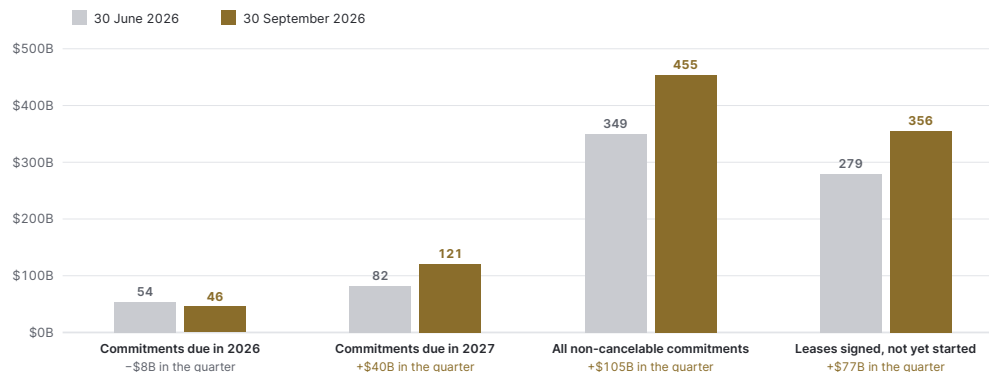
\$121B

non-cancelable commitments falling due in 2027 alone, from \$82 billion three months earlier — the first filed frame on a year for which management has given no number

For 2027, management gave words, not a number. The written outlook says the company is "still developing our budget and capacity plans for next year, but we expect to continue investing aggressively to support both our core business and emerging AI initiatives," and that the investments in Meta Superintelligence Labs "will take longer to generate returns than those in our core business." On the call the chief financial officer said the company is "evaluating a lot of investment proposals that have attractive return profiles over different time horizons," with nothing "more specific or quantitative to share until we get to the Q4 call."

The 10-Q supplies the numbers. Non-cancelable contractual commitments were \$454.52 billion at 30 September, up \$105 billion from \$349.31 billion at 30 June; \$121.41 billion fall due in 2027, against \$81.65 billion three months earlier. They "mostly relate to third-party cloud capacity arrangements and investments in servers and network infrastructure, energy service agreements for data centers, and consumer hardware products in Reality Labs," so not all of it is capex: third-party cloud is an operating cost, and the CFO named it as one driver of the growth in infrastructure costs. Leases signed but not yet started reached \$355.73 billion, from \$278.99 billion; the June 10-Q had disclosed about \$68 billion of further data-center leases signed in July for 2027–28, and the rise is consistent with them, though the September filing does not itemize it. Construction in progress, assets bought but not yet depreciating, stood at \$89.50 billion, from \$50.52 billion at the start of the year.

EXHIBIT 2 — THE 2027 BILL, SIGNED: COMMITMENTS AND LEASES AT 30 JUNE AND 30 SEPTEMBER



How to read it. Billions of dollars from the June (gray) and September (gold) 10-Qs: commitments due in the rest of 2026, commitments due in 2027, all non-cancelable commitments, and leases signed but not started (the last two run to 2036 and beyond); the figure under each pair is the change in the quarter. Compare gold with gray. The one thing it shows: the 2026 obligations ran down as they were paid while every longer-dated one grew, the 2027 bucket by nearly half.

The dose. Capex per dollar of net income was 3.54 on reported earnings in the quarter and 1.83 excluding the charge, against 1.96 reported and 1.65 normalized in June, and 1.19 for 2025 on the same basis (1.15 on cash purchases alone, as July reported it). For the full year the guide midpoints give 1.91 reported and 1.83 on earnings the house normalizes (charges added back and the year taxed at 16.5%, which also removes the first quarter's one-time tax benefit), about where July expected ("near 1.8"). The base case carries 1.94 into 2027, and nothing in the commitments schedule suggests it falls.

The second payment. Depreciation and amortization was \$7.15 billion, up 44%; servers-and-network depreciation, reported separately in the 10-Q, was \$5.34 billion, up 48% on the year and 16% on the quarter. The 10-Q discloses no change in estimate and no material change to accounting policies, so the five-to-5.5-year server life in the 2025 10-K stands, as it did in June. A fourth quarter growing at the third's rate puts 2026 at \$27.6B, on the ~\$27.5 billion the July note carried. On the house three-year clock, re-run with this year's capex, the 2027 depreciation the longer schedule defers rises to \$15.17B pre-tax from \$13.55 billion in July: \$4.89 a share of 2027 earnings after tax, from \$4.38. Both payments are growing faster than the earnings that should cover them, which raises the question of who pays.

THE FUNDING

Who funds it

In 2025 operating cash covered the build with \$43.6 billion of free cash flow to spare, and the company bought back \$26.2 billion of stock. In 2026 it does not: Meta issued \$24.91 billion of notes in May, has repurchased nothing, and has \$11.05 billion of free cash flow for nine months. On the guide midpoints the fourth quarter consumes about \$26B of free cash flow to equity before any borrowing (the house measure, with share-based compensation charged as a cost; about \$18B on the company's own definition). The September 10-Q hardens a sentence from June: where the company "may also seek" to raise capital, it now says, "From time to time we expect to seek to raise additional capital through debt, equity, or other financing arrangements." The Class C stock gives the equity part of that sentence an instrument. Its stated purposes include "capital raising, employee compensation, acquisitions, other general corporate purposes"; it carries no vote, will be distributed one-for-one to existing holders (in effect a two-for-one split) once the amended charter takes effect on 19 January 2027, and was approved by shareholder written consent, which the founder's majority of the vote (a risk factor the 10-Q restates) makes possible. The CFO said: "We don't have any specific financing plans to announce at this time."

The model funds each year's shortfall as July's did: net borrowing on a stated path, with any remaining negative free cash flow charged against equity, as if raised at fair value. On that basis the base case needs \$69B of external capital across 2027–29 before borrowing, the bear case \$116B, and the bull case only \$9B. Issuing Class C above the house value

would, on the house's numbers, transfer value from new buyers to existing holders; issuing below it would do the reverse. The note does not forecast an issue; the first one is a tripwire.

The settlement is a claim on the same cash. About \$12.7 billion is payable to the states in annual installments over ten years; a further \$5.3 billion is contingent and not accrued, payable state by state only if peers such as YouTube and TikTok adopt the same teen protections and each such peer with more than \$10 billion of annual profit is obliged to pay the same amount. Legal accruals rose to \$19.88 billion from \$7.32 billion at year-end. The model deducts the accrued charge after its tax shield (\$9.19B) in every case and adds the contingent amount in the bear case. With the bill sized and its funding read, the question becomes what the shares are worth.

THE VALUE

What Meta is worth after the print, and why the number moved

The engine is the July note's cash-flow-to-equity model. Share-based compensation is expensed and the diluted share count (2,573 million) is held flat, which is neutral here: buybacks, or Class C shares issued, at fair value move no value a share. The cost of equity is rebuilt on the 21 October ten-year Treasury yield of 5.13% (from 4.67%), with the July beta of 1.35 and a 4.5% equity risk premium: 11.21%. The forecast now runs from 2027 to 2033 with every stage length argued, and the return on capital is set against its cost quarter by quarter. Three things changed in how we value Meta, and the reader should be able to separate each from what the quarter did.

How the cash-flow model changed, and why. Two changes to how the model is calculated, each with its own row near the end of the attribution table. **1. Terminal growth now comes from long-run GDP.** July used 3.5% (3.0% in the bear case) as a house convention. This note uses the Federal Reserve's September projections for the longer run, 2.0% real growth and 2.0% inflation: 4.0% nominal in the base and bull cases, and one point less in the bear case, where Meta loses share of the economy. Effect: +\$9.83. **2. Every fade now lands on its terminal value.** July's growth and capex paths stopped short of terminal and stepped down at the horizon. Here revenue growth and capex intensity fall in a straight line from the end of each stage to their terminal values in 2033. Effect: −\$5.64. On July's method the quarter's data alone would have moved fair value from \$370 to \$385.51; with these two changes and July's weighting, it is \$389.71.

A separate judgment: why the price-to-earnings value is no longer weighted. This is a decision about which methods count, not part of the cash-flow changes above. July weighted a price-to-earnings value on 2027 earnings at 40%. An earnings multiple is a fair lens only when earnings turn into cash a shareholder can have: capex near depreciation, most of net income becoming free cash flow, the rest paid out or bought back. At Meta that condition does not hold. Free cash flow was 72% of net income in 2025 (57% before that year's one-time tax charge), 5% in the June quarter, 21% for the first nine months of 2026 (about 20% with the legal and severance charges added back and the first quarter's one-time tax benefit removed) and negative in the third quarter; capex ran 4.9 times depreciation in the third quarter (4.4 for nine months), against 3.9 in 2025; no shares have been bought back this year. Nor is it about to return: \$121 billion of commitments fall due in 2027 and \$287B after it, not all of it capital spending, but base-case capex in 2027 alone is 1.94 times net income. The problem is not the multiples' growth. On the house's own base-case path, with every dollar distributable, 2027 earnings would be worth about 18 times, inside the 16–22 range, and about 14 times once the terminal years reinvest enough to grow. The problem is conversion: the base-case cash flows value the same earnings at about 9 times, because so much of them is spent on capacity. The condition was already weak when the July note was written, on a quarter that converted about 5% of its earnings; the 10-Q's 2027 commitments make it a judgment rather than a timing question. The lens stays as a cross-check. Effect: −\$77.59, to \$312.11. The weight comes back if earnings turn back into cash (tripwire 9).

How long each part of the business grows faster than normal. Each length is an argument, not a convention. The model workbook's Stages sheet carries the year-by-year paths.

PART OF THE BUSINESS	WHAT DRIVES THE FASTER GROWTH	HOW LONG, AND WHY	THEN	PATH WHILE IT LASTS (BEAR / BASE / BULL)
Family of Apps advertising	Price per ad and impressions both rising on AI ranking and recommendation models served on the 2026–27 capacity build	2 years: the capacity was planned to maximize 2026 and 2027 (the July call), and the written outlook dates "strong overall revenue growth" through 2027 and says nothing after. Beyond 2028 the gains are the ordinary ranking roadmap, not a step	A five-year straight-line fade to 3.0% / 4.0% / 4.0% terminal growth, long-run nominal GDP (the bear one point below): daily users already 3.64 billion (+3%), impressions growth slowing (14% in June, 10% now)	Revenue +13 / +20 / +25% in 2027 and +9 / +15 / +21% in 2028, from \$256.2B in 2026 (Q4 at the guide midpoint)
Capital build	Contracted capacity: \$121 billion of commitments due in 2027, \$356 billion of leases signed and not started	1 year at 2026 intensity: 2027 is the only year the filings schedule and the only year management describes ("continue investing aggressively"); no later year is described	A six-year straight-line glide to terminal capex of 26 / 22 / 16% of revenue: one server life on the company's own 5.5-year clock, rounded up. Straight rather than front-loaded because \$287B of commitments fall due after 2027	Capex 55 / 52 / 48% of revenue in 2027 (base about \$160B), then falling by the same amount each year
Reality Labs	Spending reallocated from virtual reality to AI; glasses priced "not to make a large profit on the hardware"	1 year: the only dated figure is "around \$15 billion" of 2027 losses; "trending towards profitability" carries no date, so the margin effect is held after 2027	Flat	Loss narrows by about \$3.5 billion, worth about one point of margin, net of Muse serving costs
New AI revenue (Muse, enterprise, subscriptions)	10 million+ Muse set-ups, Meta One, the model API and Muse Code	Inside stage 1 only: the CFO says these lines "begin contributing incremental revenue in 2027," with no size and a serving cost that is "pretty compute expensive" today	Not valued as a separate business	About one point of 2027–28 growth in the base case, four to five in the bull

Why these lengths, and why these fades. Once its driver stops, above-average growth rarely lasts: across US companies from 1951 to 1998, sales growth stayed above the median five years running for 6.3% of firms and ten years running for 0.9% (Chan, Karceski and Lakonishok, 2003). Hence five years of fade wherever stage 1 ends, in a straight line, because nothing in the filings dates a faster or slower step down. Advertising's two years rest on what the company has itself dated; a third year is the single input most in the price's favor, and it is priced below. The capital build's one year is the shortest the filings support; a longer build is the assumption that most hurts value, and it is priced too.

FAIR VALUE, \$ A SHARE	BEAR (25%)	BASE (50%)	BULL (25%)
Fair value: FCFE, cost of equity 11.21%	\$114.48	\$295.39	\$543.18
2027 EPS, reported basis / re-marked	\$27.31 / \$22.42	\$32.02 / \$27.13	\$34.98 / \$30.09
Cross-check: price-to-earnings on re-marked 2027 EPS (16 / 18.5 / 22×)	\$359	\$502	\$662
Cross-check: price-to-earnings on reported 2027 EPS	\$437	\$592	\$770

Weighted 25 / 50 / 25, fair value is **\$312.11**. Terminal value is 85% of the base case (81% to 89% across the three), which is why terminal growth and terminal capex are priced below. The earnings cross-check gives \$506 on re-marked and \$598 on reported 2027 earnings; the server clock is worth \$92 a share in that lens, from \$82 in July, because more server spending sits on the long schedule.

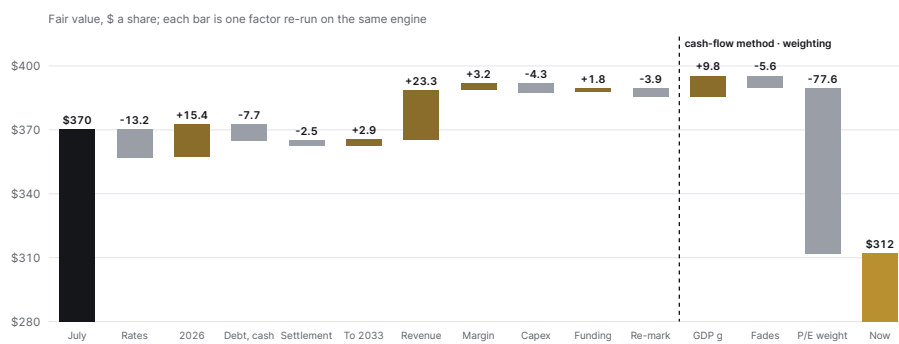
Two levels the reader should see argued. The cross-check's 16–22 range is July's, and it brackets what the market itself has paid on our base-case 2027 earnings: 17.9 times at the July close, 21.8 times on 21 October. Read on a single stage, 18.5 times next year's earnings implies about 5.8% growth in perpetuity at the 11.21% cost of equity, 22 times about 6.7% and 16 times about 5.0%; on the house's own two-stage path the base-case multiple is about 18 times, so the lens is set aside for conversion, not for growth. Terminal capex is the other level. At 22% of revenue, against depreciation of 13.5% and 4.0% growth, the base case's new capital earns about 13.1% in perpetuity, a little above the 11.21% cost of equity: modest excess returns persist. The bull case's 16% lets them run at about 35%; the bear case's 26%, at 3.0% growth, leaves them below the cost of capital, at 7%. A reader who thinks the build's returns persist should look at the bull column.

What moved the number, and what did not. Each row below re-runs the same engine with one factor changed from July's value to today's, in order, so the rows add to the move. The first ten rows apply the quarter's data on July's method; the next two change how the cash-flow model is calculated; the last is the separate decision on weighting.

FACTOR	KIND	\$ A SHARE	FAIR VALUE AFTER
Cost of equity: 10-year Treasury 4.67% to 5.13% (cost of equity 10.75% to 11.21%)	rates	-13.19	357.17
2026 re-based on the quarter: Q3 actual, Q4 at the guide midpoints, valuation date 21 Oct, 2,573M diluted shares	this-year	+15.45	372.61
Balance sheet at 30 Sep: debt \$83.7B and cash \$82.4B, against the July model's \$58.7B and \$90B (its 2026 borrowing now counted in the debt, not as a 2026 inflow)	balance-sheet	-7.67	364.95
Attorneys-general settlement as a debt-like claim (accrued \$9.89B less its \$0.70B tax shield; bear adds the unaccrued \$5.3B)	balance-sheet	-2.45	362.49
Stages argued: explicit forecast extended to 2033 (two-year stage 1 + five-year convergence), July paths held	method	+2.94	365.44
Revenue: stage-1 growth 2027-28 re-set on the Q4 guide (+22-27%) and the 2027 frame	long-run	+23.29	388.73
Margin: Reality Labs loss guided to ~\$15B for 2027 (from \$18-19B), offset by Muse serving costs	long-run	+3.18	391.91
Capex and depreciation: a 2027 build stage on \$121B of commitments due in 2027, then a six-year glide	long-run	-4.28	387.63
Funding: net-borrowing path re-set (no buybacks; non-voting Class C created for capital raising)	long-run	+1.81	389.45
Comps leg: three-year re-mark recomputed at \$140B (2026) and \$160B (2027) of capex, from \$130B	accounting	-3.93	385.51
DCF method: terminal growth set to long-run nominal GDP (4.0%, Fed SEP 16 Sep 2026: 2.0% real + 2.0% inflation) in the base and bull cases, 3.0% in the bear (share loss), from 3.5 / 3.5 / 3.0%	dcf-method	+9.83	395.34
DCF method: every fade lands on terminal — revenue growth and capex intensity fall in a straight line to their terminal values by 2033, removing the step at the horizon	dcf-method	-5.64	389.71
Weighting (a separate judgment): the price-to-earnings leg, 40% in July, is no longer weighted — the condition it needs, earnings converting to cash a shareholder can have, does not hold (9M-26 free cash flow 21% of net income, capex 4.9x depreciation)	weighting	-77.59	312.11
Fair value 370.36 → 312.11		-58.25	312.11

Each row re-runs the same engine with one more factor at today's value, in the order shown; each row's source is in the model workbook's Attribution sheet. The July configuration reproduces its published \$370.35 to within one cent (\$370.36, the base of this table) before any change. Kinds: rates, this-year (the reported quarter and the guided one), balance-sheet (filed), method (the forecast horizon), long-run (the staged paths), accounting (the re-mark), dcf-method (how the cash-flow model is calculated) and weighting (a separate judgment on which methods count).

EXHIBIT 3 — FROM \$370 TO TODAY'S FAIR VALUE: THE QUARTER, THEN THE METHOD

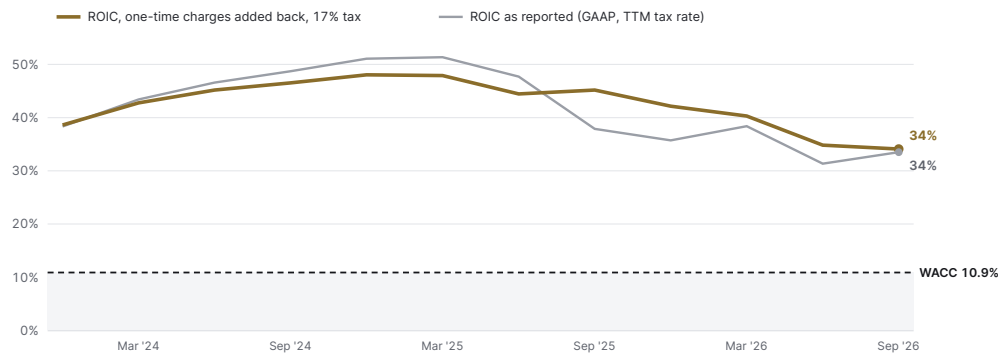


How to read it. Dollars a share; the scale starts at \$280, not zero. The black bar is the July fair value; each bar after it adds (gold) or subtracts (gray) one factor in the table's order, with the two cash-flow-model changes and the weighting decision after the dashed divider; the last bar is the new fair value. Compare bar heights. The one thing it shows: the quarter lifts the July value to about \$386; moving the price-to-earnings value to a cross-check takes all of that back and more.

Read it plainly. The 2026 base year, nine months of actuals and the fourth-quarter guide, added \$15.45, and the 2027–28 revenue path reset on the guide and the written 2027 frame added \$23.29: the case the company made on 21 October, credited. A 46-basis-point rise in the ten-year Treasury yield took \$13.19 off; debt and cash at their September

levels \$7.67; the settlement \$2.45; a heavier 2027 capital path, net of funding, \$2.47; the larger depreciation deferral \$3.93. On July's method that is \$385.51. The cash-flow changes net to +\$4.19, and the weighting decision takes the value to \$312.11; the base case moved from \$364 to \$295.39. Our number fell because it no longer counts earnings that are not becoming cash, not because the quarter disappointed.

EXHIBIT 4 — RETURN ON INVESTED CAPITAL AGAINST ITS COST, TWELVE QUARTERS

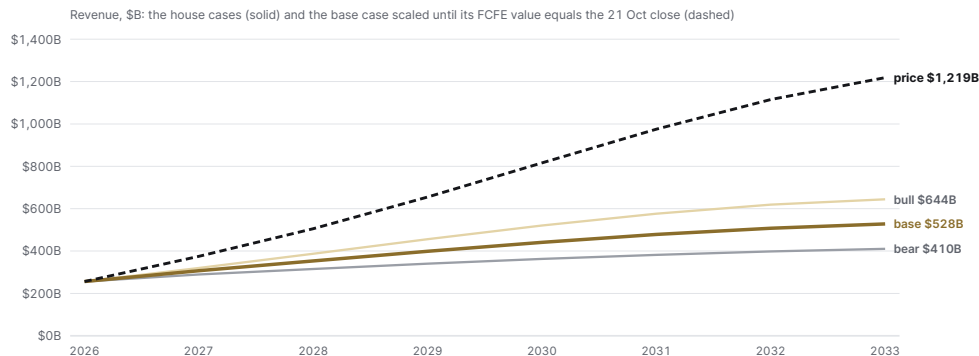


How to read it. Trailing-twelve-month return on invested capital, percent, December 2023 to September 2026. Gold adds back the disclosed one-time charges at a 17% tax rate; gray is as reported and swings with one-time tax items (a charge in the third quarter of 2025, a benefit in the first quarter of 2026). The dashed line and shaded band below it mark the 10.9% cost of capital, held flat. Compare the gold line's slope with its distance above the dashed line. The one thing it shows: the return is three times its cost, and the gold line has fallen in five of the last six quarters as invested capital outgrew operating income.

Return on capital: strong, and fading. Meta's return on invested capital is 33.5% on a trailing basis against a 10.9% cost of capital: by the house's mechanical rule, a strength regime turning to **fading**, still far above the hurdle but with the spread down 4.4 points in four quarters. With the one-time charges added back the decline is steeper, from 45% to 34%, as average invested capital grew 50% in a year and operating income did not. A return this far above its cost is why the price's case deserves a hearing; its direction is why the house does not extend the stage that produces it.

What the price requires. Hold every other base-case input and solve for the one that makes the cash-flow value equal \$697.52. Revenue would have to compound 25.0% a year from 2027 to 2033, against 10.9% in the base case: \$1,219B of revenue in 2033, against \$528B (Exhibit 5). Or the cost of equity would have to be 7.6%, an equity risk premium near 1.8% on today's Treasury yield. Or perpetual growth would have to be 8.3%, far above long-run nominal growth of the economy. No level of terminal capex gets there, even zero. Scaling every scenario's growth together, the base case has to compound at 23.1%; at a cost of equity of 10.2% the price still needs 2.0 times the base case's growth rates, and at 12.2%, 2.6 times. At the next session's \$648.85, the revenue requirement is 23.7%. The price rests not on one heroic input but on the 2026 growth rate continuing for most of a decade at a scale where it has never been sustained, or on the new AI lines becoming a second business the size of the first.

EXHIBIT 5 — REVENUE THE PRICE REQUIRES, AGAINST THE HOUSE CASES



How to read it. Annual revenue, billions of dollars, 2026 (the guide-based base year) to 2033. Solid lines are the bear (gray), base (dark gold) and bull (light gold) cases; the dashed black line is the base case with its growth scaled until the cash-flow value equals the 21 October close, all else unchanged; 2033 values are printed at the right. Compare the dashed line's end with the bull's. The one thing it shows: the price needs 2033 revenue roughly twice the bull case's.

The inputs a reader will want to move. At July's Treasury yield the fair value would be \$340, and a full point either way gives \$377 or \$263. Advertising's stage 1 at one year or three: \$294 or \$332. The capital build stage at none or two years: \$329 or \$295. Terminal capex four points lower or higher: \$381 or \$243. Terminal growth half a point either way: \$290 or \$338. July's 60 / 40 weighting of the price-to-earnings lens: \$390. Without the settlement claim: \$316. No single input in that list carries the value to the price: the most generous, terminal capex four points lower, still leaves the price 83% above it, and July's weighting, a method choice rather than an input, leaves it 79% above.

THE RECEIPT

The receipt: six tests the house had armed, scored

The July note armed six triggers on Meta; all six are graded against the release and the 10-Q.

■ scored ■ not fired / not passing ■ waypoint or not tripped

SCORED The Q3 print: margin ex-charges, a first 2027 capex frame, the D&A run-rate

Operating margin excluding the \$9.89bn charge was 35.4%, against 40.1% a year earlier and 36.8% in June on the same basis, though operating income ex-charge rose 11%. No 2027 capex figure (it comes on the Q4 call), but the 10-Q gives a filed frame: \$121.41bn of commitments due in 2027, from \$81.65bn in June. Depreciation and amortization was \$7.15bn (+44%), \$19.51bn for nine months, tracking \$27.6bn for the year against the ~\$27.5bn July carried.

NOT FIRED The 10-Q server-life note: any change to the 5.5-year clock

The 10-Q, filed 22 October, discloses no change in estimate and no material change to accounting policies, so the five-to-5.5-year server life in the 2025 10-K stands, as in June. The bill on it grew: servers-and-network depreciation was \$5.34bn (+48% on the year, +16% on the quarter), and \$89.5bn sat in construction in progress, not yet depreciating (from \$50.5bn at year-end).

WAYPOINT The FY2027 capex guide (due on the Q4 call, ~27 January)

Due in January. The early signal points away from the condition that moves the view (a 2027 guide below 40% of revenue with a glide path): management will 'continue investing aggressively', and the commitments due in 2027 alone, \$121bn, equal 39% of base-case 2027 revenue (a frame, not a capex number: they include cloud capacity and hardware). Signed-but-not-started leases rose \$77bn to \$356bn.

WAYPOINT Youth-safety charges: a second \$2bn+ year would make the legal line structural

2026 is the first year of the youth-safety cycle with more than \$2bn of disclosed legal charges (\$2.40bn in June, not itemized by matter; \$9.89bn in September for the attorneys-general agreement), so the second-year test cannot complete before 2027. Three facts point toward a second year: \$5.3bn of the agreement is contingent and not accrued (payable if YouTube and TikTok adopt the same protections and payments); Florida, New Mexico and the US Virgin Islands are outside it (New Mexico's \$375m penalty and \$567m abatement award are stayed); and bellwethers are set for 28 October 2026, 16 March and 6 August 2027.

NOT PASSING The concession: two quarters of 45%+ ex-charge margin with ad growth above 20%

Advertising grew 26%, but the ex-charge margin was 35.4%, ten points short, and the guide implies about 33% for the fourth quarter, so the two-quarter test cannot start before 2027.

NOT TRIPPED Revisit below \$278

Closes of \$697.52 (21 October) and \$648.85 (22 October), more than twice the level. Superseded by this note's fair value; the replacement is tripwire 8.

 THE TRIPWIRES

What carries the story to the next update

 **\$49.2B–\$59.2B** the fourth-quarter capex the guide implies — the first test, on the next print, of whether the floor is a commitment or an intention

Each tripwire carries its basis, its tolerance and what the model does with the answer, so the next update applies rules written now. The fourth-quarter release is expected around 27 January 2027 (unconfirmed on the brokerage calendar).

1. **Fourth-quarter capex.** Basis: the Q4 release's capex including finance leases, against the \$49.2B–\$59.2B the full-year guide implies. Inside the range: the base case's 2027 build stage holds. Below \$49.2B: the year finishes under the floor set in October. The base case's 2027 capex then moves halfway toward the bull's 48% of revenue, and the house reads the floors as intentions, not commitments. Above \$59.2B: the build stage is re-run at two years (\$295).
2. **The 2027 capex guide (Q4 call).** Basis: the guided range against base-case 2027 revenue of \$307B. At or below 40% of it, about \$123B, with a stated glide path: the July trigger to move toward a neutral view fires and the build stage is removed (\$329). Between that and \$148B (the bull case's 48% of revenue), a guided midpoint moves base-case 2027 capex halfway toward the bull's (\$316; one year of capex moves little). From there to \$160B: the base case holds. Between \$160B and the bear case's 55% of revenue (about \$169B), a guided midpoint moves base-case 2027 capex halfway toward the bear's (\$309). Above 55%: the build stage moves to two years (\$295). A guide with no range — "invest aggressively" again — is read as above 55%.
3. **Commitments due in 2028.** Basis: the FY2026 10-K's commitments schedule (filed about late January to February 2027). If the commitments due in 2028 exceed the \$121 billion now due in 2027, the build has a second signed year and the stage moves to two years (\$295). Below \$80 billion, the build has no second signed year and the stage is removed (\$329). Either reading applies whatever the 2027 guide says.
4. **The first Class C sale for cash.** Basis: an 8-K, a prospectus supplement, or the financing section of a 10-Q after 19 January 2027. Record the proceeds and the price against the house value at the time. Proceeds above 2% of the market value in any twelve months mark the funding path as equity-led; the model's net-borrowing path is then cut by the proceeds. Fair value changes only by the difference between the sale price and the house value on the shares sold. Grants to employees in Class C are not a sale.
5. **Ex-charge operating margin, fourth quarter and the 2027 expense guide.** Basis: the Q4 release (the guide implies about 33%) and the 2027 expense outlook. A 2027 expense guide that implies operating income growing more than ten points slower than revenue moves the base case's 2027–28 EBITDA margin to the bear's path. Two consecutive quarters at or above 40% excluding charges move it to the bull's. The July concession test (45%+ with ad growth above 20%) stays armed.
6. **The youth-safety line.** Basis: the 10-Q and 10-K legal notes and any 8-K. The consolidated personal-injury bellwether opening 28 October 2026, the school-district case in February 2027 and the bellwethers of 16 March and 6 August 2027 are the dated events. Any accrual of the \$5.3 billion contingent payment moves it from the bear case into every case. Disclosed legal charges above \$2 billion in 2027 complete the July test: the legal line becomes a recurring cost, and the base margin is cut by the 2027 amount spread over five years.
7. **The server clock.** Basis: the FY2026 10-K useful-life note. Any change in estimate re-runs the re-mark. A move to four years or less would close most of the \$92 spread between reported and re-marked earnings in the earnings cross-check; the cash-flow value depends on the book useful life only through the tax line.

8. **The price.** Fair value \$312.11. A close at or below it resolves the gap. At \$234, a 25% margin of safety, the house would look for an entry if the operating tests above are intact (this replaces the July note's \$278).
9. **Earnings turning back into cash.** Basis: free cash flow (Meta's definition) over net income, quarterly, and the buyback line. Two consecutive quarters with free cash flow at or above 60% of net income, or a 2027 guide that takes capex back below twice depreciation, or buybacks resuming at more than \$5 billion a quarter: the condition for an earnings multiple holds again, and the price-to-earnings value returns at July's 40% weight (\$389.71 at today's inputs). Between 20% and 60%: unweighted, but two consecutive quarters above 40% restore half the July weight, 20% (\$351). Below 20% for two more quarters: the cross-check stays unweighted and the note says so.

What would change our view

The house would move toward the price on any two of the following. A 2027 capex guide at or below 40% of revenue with a dated glide path (tripwire 2), which ends the build stage. Commitments due in 2028 below \$80 billion (tripwire 3). Free cash flow back at 60% or more of net income for two quarters, or buybacks above \$5 billion a quarter (tripwire 9), which restores the price-to-earnings weight. Muse or the enterprise platform disclosed as a revenue line above \$10 billion a year within 2027, which would justify a third year of stage-1 growth. Two consecutive quarters of 40%+ operating margin excluding charges while advertising grows above 20%. Or a return on invested capital, charges added back, that stops falling at the Q4 print. Any two move the base case toward the bull's inputs and the fair value with it.

The house would move toward the bear case's inputs on any two of the mirror conditions. A 2027 guide above the bear case's 55% of revenue, or no range at all. Commitments due in 2028 above \$121 billion (tripwire 3). A second year of \$2 billion-plus legal charges (tripwire 6). Or advertising growth below 15% in any quarter of 2027 with capex still above half of revenue. A Class C sale for cash is not on either list: it is information about funding, not about the business, and it is scored on its price.

THE CALL

The call

Fair value \$312.11 a share (bear \$114.48 / base \$295.39 / bull \$543.18 at 25 / 50 / 25), from \$370 on 31 July. At the \$697.52 close of 21 October the expected return to fair value is -55%; at the next session's \$648.85, -52%. The quarter earned Meta a higher number, \$385.51 on July's method, because its revenue engine is stronger than we assumed. It did not earn a smaller bill: \$121 billion of the 2027 bill is already signed, not all of it capital spending; it is growing faster than operating income; and the company has built a share class that can help pay it. Until earnings turn back into cash, we value Meta on the cash it produces rather than on its earnings, and the price assumes the bill earns a return the business has not yet shown. The fourth-quarter call will put the first number on 2027, and the 10-K a second year of commitments. The Fund holds no position in META.

SOURCES

Sources & Method

Company filings. Third-quarter results: Form 8-K and Exhibit 99.1, SEC accession 0001628280-26-066700, furnished 21 October 2026 (period ended 30 September 2026): every income-statement, segment, cash-flow, balance-sheet and guidance figure; the \$9.89 billion charge and the ex-charge operating income (\$22.88 billion), EPS (\$7.40) and tax rate (17%) as the company states them; the CFO Outlook Commentary quoted verbatim; the Class C announcement (effective date 19 January 2027; Moelis advising the Special Committee, Morgan Stanley advising Meta). Form 10-Q for the quarter ended 30 September 2026, accession 0001628280-26-066773, filed 22 October 2026: no material change to significant accounting policies and no change in the servers-and-network useful-life estimate; servers-and-network depreciation (\$5.34 billion, \$14.34 billion for nine months); property and equipment by class (construction in progress \$89.50 billion); legal-related accruals (\$11.58 billion current, \$8.30 billion non-current); the attorneys-general agreement (up to \$18.59 billion; about \$12.7 billion over ten years; about \$5.3 billion contingent and not accrued; \$75 million to the settling states' committee); the litigation calendar; restricted cash equivalents (\$12.83 billion, of which \$10.80 billion in escrow); non-cancelable commitments (\$454.52 billion; \$45.85 billion due in 2026 and \$121.41 billion in 2027); leases not yet commenced (\$355.73 billion); the liquidity paragraph quoted; shares outstanding at 16 October 2026 (2,214,472,367 Class A, 341,768,886 Class B). Form 10-Q for the quarter ended 30 June 2026, accession 0001628280-26-050705, filed 30 July 2026: the 30 June commitments (\$349.31 billion; \$53.52 billion due in 2026, \$81.65 billion in 2027), leases not commenced (\$278.99 billion) and the July data-center leases (about \$68 billion). The Q2-2026 8-K (accession 0001628280-26-050596), the Q1-2026 8-K (0001628280-26-028364) and the FY2025 10-K (0001628280-26-003942) as cited in the July note, for the guide history, the June-quarter charges (\$2.40 billion legal, \$1.18 billion severance), and the 2025 base. Quarterly history: Q4-2025 is FY2025 less nine months of 2025; Q1-2026 is the first half less the June quarter. All filings retrieved from SEC EDGAR on 23 October 2026.

Earnings call. Q3-2026 conference call, 21 October 2026, 16:30 ET. Wording is taken from Meta's own posted transcript (investor relations, retrieved 23 October 2026) and each quotation is checked word for word against two independent transcriptions, The Motley Fool and Investing.com. One difference in contraction is recorded and the issuer's wording used. The provenance table is archived with the note's data. An analyst's paraphrase on the call of earlier management comments about 2026–28 capacity is not attributed to management. Call-only statements (no 2027 capex figure until the Q4 call; the Muse figures; serving-cost efficiency; financing plans) appear in no filing and are identified as spoken.

Market data. META \$697.52: the 21 October 2026 settled close, the session of the release (released after the close). \$648.85: the 22 October settled close (SIP), from the brokerage consolidated feed; regular-session volumes 29.2 million (21 October) and 40.6 million (22 October). Evening-session prints: \$712.05 at 8:29 p.m. ET and a session high of \$748.80 on the feed's five-minute extended-hours bars, cited as the evening session only. The 30 July 2026 close (\$539.03) is the July note's anchor. Ten-year Treasury: FRED series DGS10, 5.13% on 21 October and 4.67% on 29 July 2026. Consensus figures are press-compiled and used only to settle the earnings basis: LSEG revenue \$63.37 billion (CNBC, 21 October 2026); EPS \$5.75 (CNBC live coverage, with its comparability caveat); GAAP-basis EPS \$3.57 (Investing.com); \$6.54 (MarketBeat); the brokerage feed's \$5.74 estimate and \$7.40 actual, whose prior-quarter actual (\$6.18) is on the GAAP basis while this quarter's and the year-ago quarter's (\$7.25) exclude one-time items. The fourth-quarter report date is the brokerage calendar's unconfirmed 27 January 2027.

Model. Free cash flow to equity in three scenarios, mid-year discounting from 21 October 2026, a fourth-quarter 2026 stub from the guide midpoints (revenue \$74.5B, expenses \$49.9B, capex \$54.2B, depreciation at the third quarter's sequential growth, 16% tax), explicit years 2027–2033, revenue growth and capex intensity fading in straight lines to terminal values reached in 2033, terminal value at the end of 2033 at 3.0% (bear) or 4.0% growth (the Federal Reserve's longer-run medians of 16 September 2026, 2.0% real GDP growth and 2.0% PCE inflation; CBO's 1.8% potential growth for 2031–36 is the cross-check) with terminal capex of 26 / 22 / 16% of revenue. Cost of equity 11.21% (5.13% + 1.35 × 4.5%); 17% tax; share-based compensation expensed; 2,573 million diluted shares held flat; debt at 5.4% and cash at 4.3%; net borrowing of \$45 / 45 / 40 billion in 2027 tapering as listed in the workbook; the settlement deducted after tax (\$9.19B; bear adds \$5.3 billion). Price-to-earnings cross-check (not weighted; July weighted it 40%): 2027 net income from each scenario, re-marked by the July v3 vintage engine (43% server share of capex, three-year life, half-year convention, fitted pre-2025 life of 4.65 years as disclosed in July) at 2026 capex of \$140 billion and base-case 2027 capex of \$160B, at 16 / 18.5 / 22 times. Scenario weights 25 / 50 / 25, as in July. The July configuration reproduces its published \$370.35 to within one cent (\$370.36) inside the same code before any input is changed; the attribution re-runs that engine one factor at a time, applying the quarter's data on July's method first, then the two cash-flow-model changes, and the separate weighting decision last. ROIC: research/scripts/roic_wacc.py on SEC XBRL company facts (operating income × (1 – trailing tax rate) over average equity plus debt less cash, operating leases excluded), against a WACC of 10.9% (equity at market value at 11.21%, debt at 5.4% after tax); the normalized line adds back the \$3.58 billion and \$9.89 billion of 2026 charges and taxes at 17%. The reverse solves change one base-case input at a time, or every scenario's growth together for the blend. Every input, path, sensitivity, the attribution and the ROIC series are in the downloadable workbook; every filed figure the model consumes is asserted against the archived filing text before the model runs.

Prior TON618 research relied upon. *Meta (META) — Paying Twice* (31 July 2026), which set the \$370 fair value, the method, the re-mark and the six triggers scored in \$5. *The Depreciation Question* (17 July 2026), whose v3 model supplies the re-mark engine and the dose. *The First Invoice* (30 July 2026), the Q2 scoreboard of the same series.

Limitations. The commitments schedule mixes capital spending with cloud capacity, energy and hardware purchases and is a frame for 2027, not a capex number. The re-mark's Meta leg contains a parameter fitted inside the company's disclosed range (July note, \$3); its agreement with Meta's own disclosures is not an independent validation. The like-for-like consensus figure (\$7.14) is an inference from two published compilations, not a compiled number. The new AI revenue lines are carried only as growth points, because no size has been disclosed. The model is run on the 21 October close; the next session's close and the evening prints are reported, not inputs. The note changes how the July cash-flow model is calculated (terminal growth, the shape of the fades) and, as a separate judgment, stops weighting the price-to-earnings value; \$4 and the attribution show each effect apart from the quarter's.

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