

Meta Platforms, Inc. (META)

Equity research note | Interim review | Prepared 26 August 2026

WATCHLIST Unchanged from previous report	Last close (25 Aug 2026)	\$570.05
	Change since 5 Aug note	-3.0%
	18 August low close	\$543.67
	P/E on annualised normalised Q2 EPS	~19.4x
	Probability-weighted fair value	\$552.85
	Implied downside to fair value	-3.0%

A Trigger Reached for the Wrong Reason

The 5 August note downgraded Meta from Buy to Watchlist at \$587.94 and named a specific reinstatement condition: a return toward the \$530-555 region, or a quarter showing resumed buybacks or a disclosed return metric on artificial-intelligence infrastructure. Between 17 and 20 August the shares traded straight through that band, closing at \$543.67 on 18 August and \$545.83 on 20 August, with an intraday low of \$537.27 on 19 August.

The price condition was therefore met, and this note declines to act on it. The reason is that the band was drawn on 5 August to describe compensation for the risks then known, principally the depreciation drag from a \$130-145 billion capital programme and the disappearance of the cash return. The price reached that band because a substantially new risk arrived, not because the market drifted into it. A price level set against one risk set does not automatically transfer to a larger one, and mechanically honouring it would be the more comfortable error rather than the correct decision.

The shares have since recovered to \$570.05, 3.0% below the level at the last note and 4.9% above the 18 August close. Nothing in the second-quarter financial picture has changed: no new results, no revised guidance, no announced buyback.

What Arrived: The Child-Safety Trial

On 17 and 18 August a federal trial opened in Oakland before United States District Judge Yvonne Gonzalez Rogers, brought by a coalition of 29 state attorneys general with California, Colorado, Kentucky and New Jersey presenting first. The states allege that Meta designed Facebook and Instagram to be addictive for adolescents, misled the public about the risks, and unlawfully collected data on under-13 users, pleading violations of the Children's Online Privacy Protection Act and California's False Advertising and Unfair Competition laws. It is the first case in the federal social-media multidistrict litigation to reach a jury.

Trial parameter	Position
Venue and judge	N.D. California, Oakland; Judge Yvonne Gonzalez Rogers
Plaintiffs	29 state attorneys general; California, Colorado, Kentucky and New Jersey presenting
Damages sought by the states	Approximately \$200bn
Maximum implied by the states' theory, per Meta's own filing	Up to \$1.4tn, close to the entire market capitalisation
Expected duration	Roughly six weeks from 18 August
Decision mechanism	Eight-person jury is advisory; Judge Gonzalez Rogers issues the final ruling

Trial parameter	Position
Expected ruling	Around October 2026
Witnesses still to come	Mark Zuckerberg and Adam Mosseri expected to testify

The \$1.4 trillion figure comes from Meta's own court filing characterising the maximum the states' statutory theory could imply, not from a claim the states have made. The states' lawyers have described roughly \$200 billion as the realistic figure. Both numbers should be treated as the ends of a very wide range rather than as estimates, and neither is a prediction of the outcome.

The analytically important features are not the headline numbers. They are that the exposure is now an active courtroom proceeding rather than a contingent disclosure, that former engineering director Arturo Bejar has already testified that Meta took a "don't ask, don't tell" approach to under-13 users, that Zuckerberg and Mosseri are still to appear, and that much of the relief sought is equitable. That last point matters most and is the least discussed. Equitable relief means product design remedies, and a court-ordered change to how Instagram recommends content to teenagers would reach the engagement engine that produces the advertising revenue. A monetary award, however large, is a one-time charge against a company holding \$90.3 billion of cash and marketable securities. An injunction against a ranking system is not.

Do the Published Levels Still Hold?

Level from the 5 August note	Then	Now (25 Aug)	Status
Last close	\$587.94	\$570.05	3.0% lower
Buy reinstatement zone on price	\$530 - \$555	Traded \$537 - \$546, 18-20 Aug	Reached, and deliberately not honoured
Probability-weighted fair value	\$567	\$552.85	Trimmed 2.5% for the legal overhang
P/E on annualised normalised EPS	~20.0x	~19.4x	Marginally cheaper
Free cash flow yield	~0.2%	~0.2%	Unchanged; no new disclosure
Capital returned to shareholders	\$0	\$0	No buyback resumption announced

The one level that changed materially is the reinstatement zone, and it changed by being invalidated rather than by being met. Any future price-based upgrade condition for Meta has to be drawn after the October ruling, not before it.

Valuation With a Contingent Liability

Metric	Value	Assessment
Price (25 Aug 2026 close)	\$570.05	17.6% below the 100-session high of \$691.52
Implied market capitalisation	~\$1.46tn	On ~2.56bn diluted shares
P/E on annualised reported Q2 EPS	~23.1x	Depressed by \$3.58bn of one-off charges
P/E on annualised normalised Q2 EPS	~19.4x	Was ~20.0x on 4 August
Free cash flow yield (Q2 annualised)	~0.2%	Unchanged and still the core problem
Damages sought by the states	~\$200bn	About 13.7% of market capitalisation
Sell-side target range	\$775 - \$860	Evercore \$860, BofA \$810, Bernstein \$800, MS \$775
Probability-weighted fair value	\$552.85	3.0% below the current price

Normalised quarterly earnings of approximately \$7.36 are this note's own calculation, adding back \$3.58 billion of legal and severance charges at the guided 16% tax rate to the reported \$6.18. It is not a company-reported measure. Market capitalisation is derived from the diluted share count implied by reported earnings per share.

The gap between this note's fair value and the sell-side range is now unusually wide, and it should be stated rather than glossed. Four brokers reaffirmed Buy or Outperform ratings between 18 and 25 August with targets from \$775 to \$860, three of them raising rather than cutting, and Morgan Stanley named Meta a top pick. Those houses are underwriting the capital programme and treating the litigation as a manageable charge. This note is not confident enough in either to do the same, and prefers to be explicit about the disagreement: the bull case here assumes a 21.5 times exit multiple, roughly two points below what the previous note assumed, because a trial with an October ruling and equitable remedies in scope is a reason for a lower multiple until it resolves.

Two insiders filed Form 4 sales on 21 August totalling roughly \$9.4 million. That is small relative to insider holdings and consistent with routine planned disposals; it is noted for completeness rather than treated as a signal.

Technical Position

Indicator (25 Aug 2026)	Value	Reading
Close	\$570.05	Below every computable moving average
SMA20	\$573.57	Price 0.6% below; the nearest reclaim
SMA50	\$592.86	Price 3.8% below
SMA100	\$607.35	Price 6.1% below
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	46.4	Neutral, having reached deeply oversold on 18-19 August
MACD / signal / histogram	-12.45 / -11.00 / -1.45	Still bearish; histogram narrowing from -6.72
ATR(14)	\$19.31	3.4% of price, down from 4.3%
Drawdown from 17 Apr high of \$691.52	-17.6%	Wider than the -15.0% at the last note
100-session range	\$524.49 - \$691.52	Price in the lower half

Indicators computed from 100 daily OHLCV sessions (2 April to 25 August 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

The chart is doing something specific and worth naming: it is tracking headlines. The 17 and 18 August breaks came on 17.2 and 27.1 million shares against a twenty-day average near 17.3 million, and the subsequent grind back to \$570 has come on lighter volume. Options markets were pricing roughly a \$30 swing through month end. Until the October ruling, the price is likely to be set by testimony rather than by fundamentals, which is a poor environment for establishing a position on valuation grounds.

Risks

Risk	Probability	Severity	Comment
Adverse ruling with equitable remedies	Medium	High	Court-ordered design changes to teen recommendation systems would reach the revenue engine itself
Monetary award	Medium	Medium	States seek ~\$200bn; \$90.3bn of cash and securities absorbs a lot, but not that
Depreciation drag on future margins	High	High	\$130-145bn of FY26 capex must be depreciated; still the most certain negative in the analysis
Capital expenditure fails to earn its cost	Medium	High	No disclosed return metric on AI infrastructure; the dominant determinant of the next three years

Risk	Probability	Severity	Comment
Capital return does not resume	Medium	Medium	Buybacks at zero; a second year of guidance at this level would change the equity story permanently
Rising leverage	Medium	Medium	\$24.9bn issued in Q2 taking total debt to \$83.7bn; net cash today, trajectory one-directional
Further regulatory action	Medium	Medium	An adverse finding here invites copycat suits and non-US regulatory follow-through
Advertising cyclical	Low	High	Growth is accelerating, but a single business line still supplies essentially all profit

Scorecard

Category	Score	Comment
Business Quality	 9/10	3.6bn daily users and revenue accelerating to +28%; among the strongest franchises in existence
Financial Strength	 6/10	Net cash retained, but FCF down 91% and debt up \$24.9bn in one quarter
Competitive Advantage	 9/10	Network effects and first-party data remain unmatched; unchanged
Management	 6/10	Revenue delivery excellent; capital allocation unproven at extraordinary scale
Growth Potential	 8/10	Revenue accelerated to +28%, an achievement at this scale
Valuation	 6/10	~19.4x normalised earnings is not dear, but ~0% cash yield and a contingent liability offset it
Risk (10 = lowest risk)	 4/10	Certain depreciation drag now joined by a live trial with an October ruling (was 5)
Technical Setup	 4/10	Below all moving averages, MACD still bearish, price set by trial headlines

Scored 1-10, where 10 is always best, including Risk. Weightings: valuation 16, business quality 15, risk 15, growth 14, financial strength 13, competitive advantage 12, management 10, technicals 5. Overall Investment Score: **67 / 100**, against 68 in the 5 August note. The prior note scored Risk on the same direction as this one (its label read "higher = safer"), so no restatement was required for comparability. Only Risk moved, from 5 to 4, reflecting the trial.

Recommendation: Watchlist (reaffirmed, on enlarged grounds)

The rating stays at Watchlist. It stays there for a broader reason than three weeks ago, and the distinction is worth drawing because the rating itself conceals it.

On 5 August the objection was economic. Meta had redirected its entire free cash flow and its whole buyback into a capital programme whose return had not been quantified, and the cheap multiple that had justified a Buy was measured on profits that the same programme would reduce through depreciation before increasing through revenue. Every word of that remains true and unimproved. To it is now added a legal objection that did not exist: a first-of-its-kind trial, an advisory jury, a single judge, a ruling due around October, and equitable remedies that could reach the recommendation systems themselves rather than merely the balance sheet.

It is important not to overstate this. The business underneath is performing well. Revenue accelerated to 28% growth at a scale where acceleration should be difficult, engagement set records across four applications, and management guided to full-year operating income above last year's. Four brokers have reaffirmed Buy ratings with targets between \$775 and \$860 since the trial opened. Meta is not in trouble, and a Watchlist rating is not a bearish call on the franchise.

The upgrade conditions are reset. The price condition from the last note is withdrawn, because a level drawn before the trial cannot price the trial. What would restore a Buy is resolution rather than a number: a ruling that confines the outcome to a monetary settlement the balance sheet absorbs without product-design remedies, taken together with either a resumption of buybacks or a disclosed return metric on AI infrastructure. A new price condition will be set once the October ruling is known. A downgrade to Avoid would follow an injunction that materially constrains adolescent recommendation systems, or a second consecutive year of capital expenditure guidance at this level with no revenue attribution.

Scenario Analysis

Scenario	Prob.	FY27 EPS	Multiple	Fair value	Conditions
Bull	30%	~\$32	21.5x	\$688	Ruling largely injunction-free with a manageable settlement; capex converts to measurable revenue; buybacks resume
Base	45%	~\$28	19.5x	\$546	Monetary award the balance sheet absorbs, limited design remedies; depreciation weighs; capital return stays suspended
Bear	25%	~\$26	15.5x	\$403	Adverse ruling with binding design remedies on teen products, or a very large award; multiple de-rates

Probabilities sum to 100%. Probability-weighted fair value: \$552.85, approximately 3.0% below the 25 August close of \$570.05, against \$567 and 3.5% below in the 5 August note. The reduction comes entirely from lower exit multiples reflecting the litigation overhang; the earnings paths are unchanged from the previous note. Assigning a point estimate to the legal outcome is not attempted, because the disclosed range runs from roughly \$200bn to a theoretical \$1.4tn and no responsible midpoint exists.

Final Verdict

Three weeks ago the question about Meta was whether an investor should pay a cheap-looking multiple for a company that had stopped returning cash in order to fund a bet whose return nobody had quantified. That question is unresolved and now has a companion. A federal court in Oakland is currently hearing evidence about whether the products that generate essentially all of Meta's profit were designed to addict teenagers, and a single judge will rule on it in roughly two months.

The instinct to buy the resulting weakness is understandable and, on this occasion, wrong. The price did reach the level the previous note nominated, but it reached it carrying a risk that level was never drawn to compensate for. Buying a stock at a target price set before the reason for the fall existed is not discipline; it is the appearance of discipline. The correct response to a new material risk is to reprice, which this note has done, and then to require a wider margin than before rather than the same one.

None of that makes Meta a poor business. It remains one of the finest commercial franchises ever built, growing revenue at 28% on a \$240 billion annual run rate, and there is a plausible world in which the October ruling is survivable, the capital programme pays off and the shares are worth well north of \$700, which is where the sell-side sits. The point is that an investor buying today is underwriting two unresolved questions at once, at a price only 3% above this note's central estimate of fair value, with no cash yield and no buyback to be paid for waiting. Watchlist, and the next genuine decision point is the ruling.

Sources

Alpha Vantage - daily OHLCV series, 2 April to 25 August 2026 (TIME_SERIES_DAILY) • SEC EDGAR, Meta Platforms Form 8-K Exhibit 99.1, Q2 2026 earnings release, 29 July 2026 • CNBC - "Meta faces state AG trial over child safety claims" and "What the Meta Platforms trial means for investors", 17-18 August 2026 • NPR - opening-day coverage of the child-safety trial, 18 August 2026 • Forbes - "Meta's Child Safety Trial Starts Today", 18 August 2026 • Fortune - "Meta faces \$1.4 trillion penalty in landmark child-safety trial", 20 August 2026 • Reuters via Yahoo Finance - Bejar testimony coverage • moomoo news search - Meta Platforms analyst actions and Form 4 filings, 17 to 25 August 2026 • Prior Beating The Bull research note on Meta Platforms, 5 August 2026

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August 2026 and may subsequently change. Nothing here is a prediction of the outcome of active litigation. This is an interim review between quarterly results; no new earnings release or earnings call has occurred since the Q2 FY2026 report of 29 July 2026, and no new call transcript was therefore available or required.