

Meta Platforms, Inc. (META)

Post-earnings equity research note | Q2 FY2026 reported 29 July 2026 | Prepared 5 August 2026

WATCHLIST

Changed from Buy

Last close (4 Aug 2026)	\$587.94
Net move since the print (29 Jul close \$585.61)	+0.4%
Q2 free cash flow (vs \$8,549m a year earlier)	\$784m
Q2 share buybacks (vs \$10,167m a year earlier)	\$0
FY26 capital expenditure guidance	\$130-145bn
Probability-weighted fair value	\$567

What the Quarter Changed

Meta's second quarter produced a revenue beat and an earnings miss of unusual size, and the two are connected by a single decision the company has made about how to spend the next eighteen months. Revenue of \$60,801 million rose 28% year over year and came in ahead of the \$60.19 billion consensus. Earnings of \$6.18 per share missed the \$7.17 consensus by roughly 14%, and also fell 13% against the \$7.14 the company earned in the same quarter last year. Both comparisons matter and they are easily confused, because the prior-year figure and the consensus figure sit within three cents of each other. Earnings declined year over year *and* missed expectations.

The margin arithmetic explains the gap. Total costs and expenses of \$42,026 million grew 55%, far outpacing 28% revenue growth, and operating margin fell from 43% to 31%. Roughly \$3.58 billion of that increase is identifiably non-recurring: \$2.40 billion of legal charges and \$1.18 billion of severance. The remainder is the infrastructure build.

What genuinely changed this quarter is not the multiple and not the growth rate. It is the capital structure and the disposition of cash. Free cash flow fell to \$784 million from \$8,549 million a year earlier, not because operating cash flow declined (it rose) but because \$31.1 billion of capital expenditure consumed almost all of it. Share repurchases fell to zero from \$10,167 million. The company issued \$24,910 million of debt during the quarter, taking total debt to \$83.7 billion from \$58.7 billion. Meta remains in a net cash position against \$90.3 billion of cash and marketable securities, so this is not distress. But a shareholder who owned this business a year ago owned a company returning roughly \$10 billion a quarter and generating substantial free cash flow. That shareholder now owns something structurally different.

Q2 FY2026 reported results

Measure	Q2 FY26	Q2 FY25	Change	vs consensus
Revenue	\$60,801m	\$47,501m	+28%	Beat (\$60.19bn est.)
Diluted EPS	\$6.18	\$7.14	-13%	Miss (\$7.17 est.)
Net income	\$15.8bn	—	—	—
Total costs and expenses	\$42,026m	\$27,114m	+55%	—
of which legal charges	\$2.40bn	—	non-recurring	—
of which severance	\$1.18bn	—	non-recurring	—
Operating margin	31%	43%	-12pts	—
Capital expenditure	\$31.1bn	—	—	—
Free cash flow	\$784m	\$8,549m	-91%	—
Share repurchases	\$0	\$10,167m	-100%	—

Measure	Q2 FY26	Q2 FY25	Change	vs consensus
Total debt	\$83.7bn	\$58.7bn	+43%	\$24.9bn issued in Q2
Cash and marketable securities	\$90.3bn	—	—	Net cash positive
Effective tax rate	16%	—	—	15-17% guided ahead

Source: Meta Form 8-K Exhibit 99.1 and Q2 2026 earnings call transcript (investor.atmeta.com), 29 July 2026. Capital expenditure includes principal payments on finance leases.

Guidance

Measure	Guidance	Note
Q3 2026 revenue	\$61 - 64bn	Implies continued growth; ~1% FX headwind assumed
FY2026 total expenses	\$165 - 169bn	—
FY2026 capital expenditure	\$130 - 145bn	Low end raised from \$125-145bn
FY2026 operating income	above FY2025	Management reiterated growth despite the margin compression
Tax rate, remaining quarters	15 - 17%	—

The detail that deserves emphasis is that the capital expenditure range was narrowed by raising its floor, not by lowering its ceiling. A company that had given itself the option to spend \$125 billion has removed that option. On the call, CFO Susan Li framed the funding approach explicitly, describing an evolution of the capital structure “to include a greater mix of debt as we work to bring down our cost of capital,” and pointing to a newly announced partnership with BlackRock as an example of structures that complement the balance sheet. An analyst asked directly how management thinks about the mix of debt and equity in funding an ambition of this size. That question, rather than anything about advertising, was the defining exchange of the call.

The Business Underneath

It is important not to let the capital debate obscure how well the operating business performed. Revenue growth of 28% at a run rate above \$60 billion per quarter is an acceleration, not a deceleration, and it beat expectations. Engagement reached records across the portfolio: 3.6 billion people used at least one Meta app daily, Instagram passed 2 billion daily actives, Threads crossed 500 million monthly actives, and WhatsApp set an all-time messaging record at 30 million messages per second during the World Cup final. Facebook has been above 2 billion daily actives for some time.

This is not a franchise in difficulty. Advertising demand is strong, the recommendation and ranking systems continue to convert AI investment into measurable engagement and pricing, and the company retains the largest first-party behavioural dataset in commercial use. Any bearish reading of this quarter that rests on the health of the core business is misreading it. The concern is not what Meta earns from advertising. It is what proportion of those earnings now reaches the owner of the shares, and for how long.

Testing the Valuation Argument

Meta has been widely characterised, including in prior coverage on this site, as the cheapest of the megacap technology companies. That framing deserves to be tested against this quarter rather than repeated, because the evidence for it has narrowed.

On the multiple, the claim survives. Annualising the reported \$6.18 quarterly result gives roughly \$24.72 and a price-to-earnings ratio near 23.8 times at \$587.94. Adding back the \$3.58 billion of legal and severance charges at the

guided 16% tax rate lifts normalised quarterly earnings to approximately \$7.36, or \$29.44 annualised, for a multiple near 20 times. Twenty times normalised earnings for a business compounding revenue at 28% is not an expensive share by any conventional standard, and it is cheaper than several megacap peers growing more slowly.

The difficulty is that a price-to-earnings ratio measures the price of accounting profit, and accounting profit is where this story is least informative right now. Two adjustments matter. First, the earnings figure has not yet absorbed the depreciation arising from a capital programme guided at \$130-145 billion for this year alone. That depreciation arrives in future income statements with certainty, and it is the mechanism by which today's cheap multiple can become tomorrow's expensive one without the share price moving at all. Second, the cash yield is now approximately nothing. Against a market capitalisation near \$1.50 trillion, the quarter produced \$784 million of free cash flow and returned nothing to shareholders.

The conclusion is not that Meta is expensive. It is that the valuation argument can no longer be carried by the multiple on its own, because the multiple is being computed on a profit figure that the spending programme is actively rewriting. A Buy case for Meta today has to be an argument that the capital expenditure earns an adequate return, which is a different and much harder argument than an argument that the shares are cheap.

Metric	Value	Assessment
Price (4 Aug 2026 close)	\$587.94	Recovered the entire post-earnings decline
Implied market capitalisation	~\$1.50tn	~2.56bn diluted shares implied by EPS arithmetic
P/E on annualised reported Q2 EPS	~23.8x	Depressed by \$3.58bn of one-off charges
P/E on annualised normalised Q2 EPS	~20.0x	Reasonable for 28% revenue growth in isolation
Free cash flow yield (Q2 annualised)	~0.2%	The heart of the problem
Capital returned to shareholders	\$0	Down from \$10.2bn a year earlier
Probability-weighted fair value	\$567	Approximately 3.5% below the current price

Risks and Growth Drivers

Growth drivers

Driver	Likelihood	Impact	Comment
Ad ranking and recommendation gains	High	High	The clearest existing route by which AI spending converts to revenue; already visible in 28% growth
Engagement records across apps	High	Medium	3.6bn daily users, Instagram at 2bn, Threads at 500m; inventory growth supports pricing
Business messaging and agents	Medium	High	Zuckerberg pointed to enterprise use cases; monetisation still early
External compute demand	Medium	Medium	Zuckerberg noted "nowhere near enough compute for all the demand", implying optionality to sell capacity
Off-balance-sheet financing structures	High	Low	The BlackRock partnership lowers funding cost but does not change the economics of the underlying assets

Risks

Risk	Probability	Severity	Comment
Depreciation drag on future margins	High	High	\$130-145bn of FY26 capex must be depreciated. This is the most certain negative in the entire analysis.

Risk	Probability	Severity	Comment
Capital expenditure fails to earn its cost	Medium	High	No disclosed return metric on AI infrastructure. The scale makes this the dominant determinant of the next three years.
Capital return does not resume	Medium	Medium	Buybacks at zero. If FY27 capex guidance is again at this level, the equity story changes character permanently.
Rising leverage	Medium	Medium	\$24.9bn issued in a single quarter. Net cash today, but the trajectory is one-directional.
Legal and regulatory	Medium	Medium	\$2.40bn charged this quarter. Antitrust and privacy exposure across multiple jurisdictions persists.
Advertising cyclical	Low	High	Growth is accelerating now, but a single business line supplies essentially all profit.

Market Reaction and Sentiment

The reaction was violent, split, and then fully reversed, and the reversal is the part that matters most for anyone acting today. Meta closed at \$585.61 on 29 July, the day of the post-market release. On 30 July it fell 7.95% to \$539.03 on 42.3 million shares, roughly 2.2 times the twenty-day average volume. On 31 July it recovered 3.28% to \$556.71. On 3 August it rose a further 6.02% to \$590.24, and on 4 August it settled at \$587.94.

Measured from the pre-reaction close, the shares are now up 0.4%. The market's initial verdict of a serious disappointment has been withdrawn in full within three sessions. Two readings are available and both are defensible: either investors reconsidered and concluded that a revenue beat with accelerating growth outweighs an EPS miss driven substantially by one-off charges, or the recovery reflects broad market strength rather than a specific re-evaluation of Meta. The distinction cannot be settled from price data alone. What can be said with confidence is that the entry point available on 30 and 31 July, between \$539 and \$557, no longer exists.

Technical Position

Indicator (as of 4 Aug 2026)	Value	Reading
Close	\$587.94	Below every computable moving average
SMA20	\$618.92	Price 5.0% below
SMA50	\$601.50	Price 2.3% below
SMA100	\$609.94	Price 3.6% below
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	46.4	Neutral, recovered from 37.8 on 31 July
MACD / signal / histogram	-8.95 / -2.23 / -6.72	Still bearish; no crossover yet
ATR(14)	\$25.45	4.3% of price
Drawdown from 17 Apr high of \$691.52	-15.0%	Narrowed from -19.5% at the 31 July close
100-session range	\$520.26 - \$691.52	Price sits mid-range

Indicators computed from 100 daily OHLCV sessions (12 Mar - 4 Aug 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

Scorecard

Category		Score	Comment
Business quality		9/10	3.6bn daily users and accelerating revenue; among the strongest franchises in existence
Financial strength		6/10	Net cash retained, but FCF down 91%, debt up \$24.9bn in one quarter (was 8)
Competitive advantage		9/10	Network effects and first-party data remain unmatched; unchanged
Management		6/10	Revenue delivery excellent; capital allocation now unproven at extraordinary scale (was 8)
Growth potential		8/10	Revenue accelerated to +28%, an achievement at this scale
Valuation		6/10	~20x normalised earnings is not dear, but the ~0% cash yield offsets it (was 8)
Risk (higher = safer)		5/10	Capex commitment is large and irreversible; depreciation drag is certain
Technical setup		4/10	Below all moving averages with MACD still bearish

Overall Investment Score: 68/100

Weightings: valuation 16, business quality 15, risk 15, growth 14, financial strength 13, competitive advantage 12, management 10, technicals 5. Scores for financial strength, management and valuation moved down versus the previous report; business quality, competitive advantage and growth are unchanged.

Recommendation: Watchlist (downgraded from Buy)

The rating moves from Buy to Watchlist. This is a change of view and it should be stated as such rather than buried, because the previous rating was explicit and recent.

The Buy case rested principally on valuation: Meta as the cheapest megacap, growing faster than its multiple implied. That argument has not been destroyed, but it has been narrowed to the point where it can no longer carry a Buy on its own. The multiple is computed on an earnings figure that has yet to absorb the depreciation of a capital programme guided at \$130-145 billion for this year, and the cash those earnings would once have returned to shareholders has been redirected in full. Zero buybacks against \$10.2 billion a year ago, \$784 million of free cash flow against \$8.5 billion, and \$24.9 billion of debt issued in three months describe a different security than the one that was rated Buy.

The downgrade is not a judgement that the spending is wrong. Meta may well earn an excellent return on it, management has a strong record, and the revenue line is accelerating rather than slowing while this happens. The downgrade reflects that the investment case now depends on an unproven and enormous capital allocation decision rather than on an observable valuation discount, and that a Watchlist rating is the honest description of a position that requires evidence not yet available.

Timing reinforces it. Had this report been written on 31 July with the shares at \$556.71, the calculus would have been closer, because the price would have been offering compensation for the uncertainty. At \$587.94 the entire decline has been recovered and that compensation has gone. A return toward the \$530-555 region, or a quarter that shows either resumed buybacks or a disclosed return metric on AI infrastructure, would support reinstating a Buy. A second consecutive year of capital expenditure guidance at this level without visible revenue attribution would move the rating lower.

Scenario analysis

Scenario	Prob.	Earnings path	Fair value	Conditions
Bull	30%	FY27 EPS ~\$32	\$704	Capex converts to measurable revenue and margin; buybacks resume; multiple holds near 22x
Base	45%	FY27 EPS ~\$28	\$560	FY26 operating income lands modestly above FY25 as guided; depreciation weighs; multiple ~20x
Bear	25%	FY27 EPS ~\$26	\$416	Depreciation compresses margins faster than revenue compensates; multiple de-rates to ~16x

Probabilities sum to 100%. Probability-weighted fair value: \$567, approximately 3.5% below the 4 August close of \$587.94.

Final Verdict

Meta is an outstanding business making an enormous bet, and the second quarter was the point at which the bet became large enough to change what owning the shares means.

Everything admirable about the franchise remains true. Revenue accelerated to 28% growth at a scale where acceleration should be impossible. Engagement set records across four applications. The advertising machine converts artificial intelligence investment into measurable commercial results better than any competitor. The balance sheet still holds more cash than debt. Management guided to full-year operating income above last year's, which is a more confident statement than the headline margin compression would suggest.

What has changed is that the company now consumes essentially all of the cash it generates and has begun borrowing to fund the difference, while returning nothing to shareholders, in service of a capital programme whose return has not been quantified for investors. The cheap multiple that justified the previous rating is measured on profits that this programme will reduce through depreciation before it increases them through revenue. That is not a reason to sell an excellent business. It is a reason to stop calling it cheap and to require evidence before paying up, particularly after a share price that has already recovered everything it lost on the news. Watchlist is the accurate description of that stance, and the specific conditions that would restore a Buy are set out above.

Sources

SEC EDGAR — Meta Platforms Form 8-K Exhibit 99.1, Q2 2026 earnings release (29 Jul 2026) • Meta Investor Relations — Q2 2026 earnings call transcript (investor.atmeta.com) • Alpha Vantage — daily OHLCV series, 12 Mar to 4 Aug 2026 • moomoo news search — Meta Platforms coverage, 29 Jul to 4 Aug 2026

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