



Holland Views: Meta – Price: \$112; MCap: \$300bn

The Five Stages of Grief

As equity research is sadly becoming commoditised, we want to share ideas with clients more than just long-form research. We have long favoured researching and thinking time over writing time. As a result, not everything we think makes it on to client's desks. I believe Ronald Regan once famously said:

“It is amazing what can get done if no one cares who gets the credit.”

With those thoughts in mind, we revisit Meta but do so with a few words of our own and the help of a third party. As Meta started to look good value vs its business dominance and potential growth runway, we started working on it. The result was the two pieces of research attached. Any new reader seeing this pieces were published at prices of \$310 and \$332 might be inclined to ignore them. That would be a shame. Market timing has never been our claim. Instead, it has been to try and understand superior business and the often unpredictable owner managers that control them. Our ‘GARP Fishing’ (April 2021) piece spoke to Facebooks/Meta’s moat and business resilience. Our ‘Owner Manager Inc’ (November 2021) note spoke to the owner manager culture that we thought Zuckerberg typified. In that later piece we made what some might think a strange comparison between Zuckerberg and Frasers founder like Mike Ashely in the UK. The longer this Meta investment phase goes on the closer such comparisons get.

[Engine Overhaul](#)

We stick by the *engine overall* analogy we have made, i.e. that only those close to a company in such transitions have any true idea of its real worth post recovery. We also retain a now seemingly unusual view that Zuckerberg and team will be logical capital allocators in time. Such owner managers as we have studied think nothing of spending a years’ worth of free cash flow on a new project. Meta’s crime in this regard is that its annual cashflows are c. \$40-50bn! But the business that produces these cashflows was built by who...?!

The other observation we made in the owner manager (OM) piece was that such investment phases (AI + Metaverse) tend to come along when investors least expect them. Also when they are led by an owner manager such investment period tend to be deep and longer than outsiders expect as the OM strives for perfection. The events occurring at Meta since we published that piece are consistent with that view. What we did get plainly wrong was the assumption that Apple’s privacy change headwinds were already being felt fully by the business when we did our work. This was an unforced error. Clearly there was more pain to come in this area which we should have either foreseen or just waited out a little. Whilst these changes hurt Meta’s profitability, we are not sure it changes the idea that this network has huge value to both users and advertisers going forwards

[Others pounding the table](#)

Time management has stopped us from writing yet another recent piece on Meta that highlights the amazing value its shares now offer. This week we stumbled across this write up from a portfolio manager. We have no connection with Bireme Capital whatsoever. Our reasons to

encourage you to read their piece is that it is almost word for word how we feel about Meta today. Both on the value we see in the underlying core business and how we feel Zuckerberg will remain logical with shareholder capital in the long term. [Pounding the table on META](#).

[The five stages of grief](#)

Meta share price today we think is the function of a spiral that we see occasionally in such owner manager businesses. A problem may occur that hits profit and damages the business in the near term (Apple changes or Nike's 2017 punch up with Frasers). The founder reaction is decisive and aggressive, being prepared to spend sizable amounts to ensure the business survives and is strengthened, not weakened, in such a period. When asked to moderate such spending founders decline seeing only the long-term game of business repositioning. In time the founders grow frustrated with investor short-termism. When the period of flux takes longer than expected, the founders double down to ensure eventual success. During this whole period outside investors that thought they owned a cash producer that would grow to the sky are suddenly shocked. They loved their owner manager when he was growing with ease. Soon they come to hate him even as he tries to position the business for a better longer term future. Arguably as these owner-lead investment phases drag on investors go through the five stages of grief.

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

Each investor likely has a different attitude towards how they react to bad news when it emerges from their companies. Some will sell early and some will sell later during this psychological rollercoaster. Most sell. It is interesting to note that during such periods there is seemingly very little discussion about the underlying value of the business. This is arguably because investors are a) thinking with their fast beating hearts and emotions, not their heads and b) the deteriorating shorter-term profitability makes it look like the business is in freefall. The other company comparison we would make is with Next. As much as many investors admire Lord Wolfson there are often times when his brutal honesty about the state of the business or its uncertain outlook causes consternation. Not only does his commentary cause some investors to take freight, importantly it stops new investors buying. All they hear from the CEO is risk and uncertainty so they decide to wait. This buyer/seller balance creates falling share prices. A N Other company with a less secure CEO is likely also seeing risks and uncertainties ahead, but this is something they dare not communicate to investors.

Owner managers that feel super secure in their jobs very very occasionally makes megalomaniac decisions that destroy a company. Much more often they are just truthful about how uncertain the future is and are resolved in their dedication to improve the company's future with their actions. Many investors seek company insight, but when presented with truth few can handle it.

"You want the Truth... You can't handle the Truth" – Jack Nicolson, **A few good men**

Today we think Meta represents a wonderful investment opportunity. That opportunity has been perfectly summarised by the Bireme Capital write up so please take a look: [Pounding the table on META](#)

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