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Rating Action

Moody's Ratings upgrades Meta's senior unsecured rating to Aa3; outlook stable

New York, April 18, 2024 -- Moody's Ratings (Moody's) upgraded Meta Platforms, Inc.'s (Meta) senior unsecured notes rating to Aa3, from A1. Moody's Ratings also upgraded the senior unsecured shelf rating to (P)Aa3, from (P)A1 and the long-term issuer rating to Aa3, from A1. The outlook is stable.

The ratings upgrade reflects Meta's strong execution, much improved profitability, well-established competitive position, exceptional liquidity, and very conservative financial policies. At the same time, the ratings are constrained by the significant legal and regulatory risks Meta faces in the US and Europe, and the potential negative impact they could have on the company's business model and/or profitability.

"Over the past few years, Meta's strong execution has kept it at the forefront of the ever-changing social media landscape driving users and engagement higher and materially improving sales and profitability, while at the same time navigating an increasingly difficult regulatory landscape, " said Emile El Nems, a Moody's Ratings' VP-Senior Credit Officer. "Going forward, we expect Meta to remain very competitive, maintain its market leadership in non-search digital advertising, retain best in class credit metrics, and achieve materially higher free cash flows."

RATINGS RATIONALE

Meta's Aa3 senior unsecured rating reflects the company's leading market position in (non-search) digital advertising with a global user base of around 3.2 billion daily active people. Meta, through its family of apps (Facebook, WhatsApp, and Instagram, etc.), provides a unique value proposition for users and businesses to transact, communicate, and share experiences. The company's access to a large global pool of users, and the efficient ability of its platforms to identify and target specific consumers have been and will remain a compelling value proposition for advertisers and businesses. In addition, the rating considers Meta's improved profitability, exceptional liquidity and best in class credit metrics. For 2024 and 2025, Moody's Ratings expects Meta to achieve higher free cash flow generation and maintain a very conservative financial policy. For this year and next, Moody's Ratings projects free cash will be greater than $44 billion and around $52 billion, respectively.

At the same time the rating takes into consideration the material legal and regulatory risks that Meta faces, and the negative impact these risks could have on the company's competitive position and profitability. In the US, Meta faces an antitrust lawsuit filed by the FTC on December 9, 2020, in conjunction with 46 states regarding alleged anti-competitive behaviors. No trial date has been set and the case could take years before it reaches any conclusion. In addition, on May 3, 2023, the FTC filed a separate public administrative proceeding (in the Matter of Facebook, Inc.), seeking substantial changes to a settlement reached in 2020 that originally imposed a $5 billion fine on Meta, following privacy violations, including the Cambridge Analytica scandal. In this new lawsuit, the FTC is seeking to modify that settlement by preventing Meta from targeting ads to minors. Also in the US, Meta faces a lawsuit from the State of Texas that is set to go on trial in June 2024. The lawsuit alleges that capturing and using biometric data of millions of Texans without properly obtaining their informed consent is in violation of the Texas Capture or Use of Biometric Identifiers Act and the Texas Deceptive Trade Practices-Consumer Protection Act.

Furthermore, Meta faces regulatory risks in Europe in connection with: (i) the General Data Protection Regulation (GDPR) and other data privacy regulations, which protect personal information and (ii) competition laws like the Digital Markets Act (DMA), which imposes restrictions and requirements on designated companies. Under the DMA, which took effect on March 7, 2024, Meta is prohibited from combining data collected from two different services (i.e., Facebook and WhatsApp) without user consent. The most important fundamental risk is whether regulation or actions imposed on the company materially and permanently alter its business model such that its leading positions, business diversity and profitability are significantly constrained or reduced.

While regulatory risks remain a concern, Moody's Ratings believes that Meta's strong execution, exceptional liquidity, very low leverage (inclusive of Moody's Ratings' Adjustments) of around 0.64x at year end 2023, and significant operating scale mitigate these risks.

Meta enjoys exceptional liquidity. This is supported by (i) around $65 billion of cash, marketable securities and short term investments on the balance sheet (as of December 31, 2023), (ii) Moody's Ratings' expectations for more than $44 billion in free cash flow in 2024 and around $52 billion in 2025, and (iii) management's conservative financial philosophy of maintaining between $35 to $40 billion in cash and marketable securities on hand, and maintaining a target gross leverage ratio between 0.5x and 1.0x (inclusive of Moody's Ratings' adjustments).

The stable outlook reflects Moody's Ratings' expectations that Meta will maintain its leading market position in non-search digital advertising, grow revenue, increase profitability, maintain exceptional liquidity, and maintain very conservative financial policies.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's Ratings could upgrade Meta's ratings if the company continues to adhere to very conservative financial policies, regulatory and legal risks moderate, and Meta demonstrates the ability to grow revenue and profitability amid intensifying competition. Moody's Ratings could downgrade the rating if debt-to-EBITDA is sustained above 1.0x (incorporating Moody's Ratings' standard adjustments), free cash flow to debt drops below 30%; cash (inclu short-term investments) to debt is sustained below 1.0x, or regulatory pressures force a material negative change in the business model.

Headquartered in Menlo Park, California, Meta Platforms, Inc., is a social networking internet platform that helps people and businesses connect and share information, photographs, and videos and play games. The company's products include Facebook, Messenger, Instagram, WhatsApp and Meta Quest. Meta is moving beyond 2D screens toward immersive experiences like augmented and virtual reality to help build the next evolution in social technology.

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at https://ratings.moodys.com/rmc-documents/356424. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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