

KAI SPOTLIGHT

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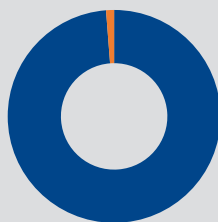
Company Spotlight Meta

As we reflect on the market dynamics of the past few years, one notable portfolio holding stands out — Meta Platforms. This technology giant provides us with a valuable lesson in the importance of assessing and evaluating a business independently from its recent stock price performance.

Meta operates two main business segments: a) the widely used platforms like Facebook, Instagram, WhatsApp, and Messenger form the Family of Apps segment, creating revenue through digital advertising; and b) Reality Labs, a smaller segment exploring augmented and virtual reality technologies, notably the Oculus and Quest headsets. That said, Meta generates substantially all of its revenue through digital advertising on its Family of Apps platforms. Businesses use these platforms to reach and engage with their target audience. Meta benefits from a strong network effect, where the more consumers interact with these apps, the more valuable their advertising services become.

In 2022, investors started expressing concerns about the future prospects and growth of the Reality Labs segment. While some of these concerns were and still are valid, we believe there was a disproportionate negative focus on this smaller and non-vital division. At the same time, general global economic worries began to mount, leading to a broad market selloff and, in our view, a significant disconnect between Meta's share price and its underlying value. The result was a 64% decline in Meta's stock price for the calendar year 2022 with many investors having seemingly lost sight of the strength in Meta's core digital advertising business.¹

Meta Platforms Revenue by Segment ²	Millions USD
Family of Apps	125,405
Reality Labs	1,551
	126,956



■ Family of Apps 98.8%



■ Reality Labs 1.2%

 Meta Quest  Oculus

In the words of Benjamin Graham, a renowned value investor and mentor to Warren Buffett: "In the short run, the market is a voting machine but in the long run, it is a weighing machine."³ In our view, this quote aligns with our recent Meta experience, emphasizing the importance of looking beyond market sentiment and instead dedicating attention to the fundamentals of a business which allows a thoughtful investor to reach an independent conclusion.

Credit is due to Meta's management for their proactive initiatives in 2023. They took strategic steps to enhance efficiency, removing redundancies, and improving profitability. Today, Meta continues to be a digital advertising leader as the Family of Apps segment has grown its annual sales to \$125 billion and reported over \$52 billion in pre-tax operating profit in its last twelve months of operations.² Meta now has over 3.1 billion daily active people across its family of apps and nearly 4 billion monthly active people.⁴ This means that approximately half of the world's population engages with Meta's digital ecosystem on a monthly basis which showcases the strength of its network effect. At KAI Asset Management we often refer to Meta Platforms as the global directory of consumers. This notion neatly summarizes Meta's value proposition in that Meta allows advertisers to efficiently gain exposure to the world. For the calendar year ended 2023, Meta's share price rebounded remarkably, increasing by roughly 184%.¹

While it would have been easy to simply focus on the ups and downs in 2022-2023 in relation to Meta's share price, we instead chose to focus on the metrics that reflect the utility of Meta's network. User and advertiser engagement, rather than short-term market swings, serve as the true indicators of Meta's value.

In conclusion, Meta Platforms' recent journey reminds us that understanding a company's business model is paramount. In times of increased share price volatility, maintaining faith in the underlying health and viability of a company, provided it is warranted, can lead to substantial rewards over the long-term. As we navigate the complexities of the market we will keep this lesson in mind while staying patient and focused on the enduring strength of the businesses in our portfolio.

¹ S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (January 2024) ²Based on 12 months ending September 30, 2023, S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (January 2024) ³Berkshire Hathaway, *Shareholder Letters* (1987) ⁴Meta Platforms, *Meta Earnings Presentation Q3 2023*
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