



Buy: Meta Platforms (META)

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HOLDINGS UPDATE

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The Jensen Investment Team has added a new position in Meta Platforms Inc (META) to the Jensen Quality Growth Strategy.

Meta Platforms Inc, founded in 2004 by Mark Zuckerberg and Harvard peers, has evolved from a college social networking site (“TheFacebook”) into a global leader in social media, digital advertising and artificial intelligence (“AI”). Rebranded as Meta in 2021, the company now focuses on connecting people through its Family of Apps (“FoA”) — Facebook, Instagram, WhatsApp and Messenger — and advancing AI, including via its open-source family of large language models, Llama. With more than 3.4 billion daily active people (“DAP”) across its platforms, Meta commands a dominant position in social media.

Meta’s investment appeal going forward rests on two core strengths: its AI capabilities and the network effects of its platforms.

AI Leadership

Meta’s AI researchers drive cutting-edge advancements in machine learning, natural language processing (“NLP”) and computer vision. These technologies enhance user engagement (e.g., via content recommendation algorithms), optimize ad targeting and streamline content moderations. For example, AI boosts ad impressions by keeping users on platforms longer. Meta’s open source AI models, like Llama, are long-term bets toward solidifying its AI leadership.

Network Effect

With billions of users, Meta’s platforms grow more valuable as more people join, creating a self-sustaining ecosystem. The scale locks in users and attracts advertisers, who benefit from unmatched audience reach and targeting efficiency. The resulting barriers to entry make it difficult for competitors to challenge Meta’s dominance.

These strengths translate into high user retention, strong ad pricing power and profit margins that consistently outpace industry peers. Meta’s financials are extremely robust: 29% revenue CAGR over the last 10 years; gross margins consistently around 80%; EPS growth at a 30% CAGR over the last 10 years; and free cash flow surpassing \$50 billion as of the last fiscal year.

When previously examining Meta, the Jensen Investment Team had been concerned by Meta’s large spending on the Metaverse, an immersive virtual world in which users would be able to interact via avatars. These concerns have moderated as the current large investment cycle of Meta is predominantly focused on building out Meta’s AI capabilities. The Jensen Investment Team believes that Meta’s significant — and likely multiyear — capex spending on AI credibly enhances the moat of the business in the long term, while it did not share the same belief about company management’s business case for the Metaverse.

Meta possesses many of the qualitative business aspects that we at Jensen seek to identify. The company’s competitive advantages include a vast and unmatched user base enabling unparalleled data collection for AI and highly targeted advertising, plus distribution advantages that can connect its AI tools to billions of users overnight and fungibility of AI investments (good for the core business and new growth initiatives). In addition, its owner-managed culture enables agility and urgency of action that we believe is particularly suitable for the period of tremendous technological change being experienced by the companies we own and by the world at large.



Due to Meta’s attractive fundamental business characteristics, its demonstrated history of shareholder value creation and our valuation work that aims to identify attractive long-term investment opportunities, we are pleased to add the company to the **Jensen Quality Growth Strategy**.

This trade marks a continuation of deliberate actions in response to a dynamic market environment, ranging from managing risk exposures in an ebullient 2024 to subsequently taking advantage of recent market volatility and tariff-induced economic turbulence. As such, we have strategically upgraded both the quality and growth profile of the portfolio, as this heightened market instability and uncertainty reveals opportunities for disciplined active managers like ourselves.

Strategy holdings are subject to change and should not be considered recommendations to buy or sell any security. For a listing of the Quality Growth Strategy’s current holdings, please visit www.jenseninvestment.com/growth-composite-holdings.

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