Financial Diagnosis and Value Recovery of Meta Platform Inc.: A Study to Meta with Targeted Remedies

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Abstract. During last few years, the world has witnessed the explosion in science and technological industry and the fierce competition in this industry. Also, the technology has suffered from the economic policy of the home government. In this essay, the financial analysis is used at first in order to measure the liquidity profitability solvency and share price changes of Meta. The total business operation of Meta is good; however, some problems are discovered. Then, the comprehensive and deep investigation is carried out at the propose of explaining the causes. Finally, three helpful suggestions are introduced and explained. As a conclusion, the major problems of Meta consist of worsen solvency ability, reliance on advertisement income, and the productivity paradox of artificial intelligence program. And these issues can be solved by clarifying project goals and strengthening responsibility-based management, expanding business on online shopping to reduce reliance on advertisement revenue, utilizing reference shares enhance solvency ability and using asset-liability hedging method. This essay can be used to help investors realize the business operation situation of Meta and its competitors, what's more, the article provides the ways for the companies which meet the similar predicament.

Keywords: profitability, solvency, Meta's liquidity, Project objectives

1. Introduction

Nowadays, tech behemoths have the more evident significance than ever before. They control the latest information infrastructure, providing various social media, making people from distant place are able to chat at the same second. In addition, these scientific and technical corporations obtain the must-pass place in this era of the prevalence of the electronic economy, controlling more than half of the advertisement expenditure around the world. However, what makes them become more and more important is their AI project, such as the Doubao of Byte Dance, and ChatGPT of Open AI, which has already changed people daily life. And further, these giants have the significant influence of the economic politic, and culture situation. Among these tech behemoths, Meta is a outstanding representative, not only because it has Facebook Instagram and Whats App messengers which has over 3 billion users, but also the open-source AI items of Meta is very famous, such as reality labs and Llama which disrupted the balance of the global artificial intelligence industry. Additionally, as a highly successful case of business development, during past two decades, Meta shifts from Harvard University on-campus program to a famous technology behemoth. This article mainly focuses on investing the business operation situation of meta during 2022-2025, especially the liquidity, profitability and solvency ability.

The development has led to many studies, and presents a situation of multidimensional research [1]. Many studies focus on the AI strategy and ethical controversies, the competition between these technology behemoths, the operation performance analysis. Ethical controversies mean, some students use AI to finish the homework and the company utilizes AI to supervise the activity of its employees [2,3]. And competition is mainly from the similar AI program, especially, the open AI has threatened the Gemini, what is more, the comparison of development of different technology companies as well as ratio of investment and output [4,5]. However, there is still a lack of sufficient case studies on a particular company, which will provide guidance for other developing companies facing the same problems as these giants [6].

This article chooses Meta as a representative of technology giants, and use the financial analysis of liquidity, profitability, solvency, stock price changes in order to find out the problems in Meta daily business operation, such as reliance on advertisement income and over-allocation on artificial intelligence which is not profitable enough now, worsen solvency ability. Then, coming up with certain method. To deal with over-allocation on AI project, Meta should clarify project goals and strengthening responsibility-based management. In order to tackle reliance on advertisement income, expanding business on online shopping to reduce reliance on advertisement revenue needs to be considered. Finally, to enhance the solvency ability, the company needs to utilize reference shares enhance solvency ability and use asset-liability hedging method. This essay integrates the content of ACCA F9 financial management and the primary courses of CFA to assess the business operation situation and provide suggestions. Namely, the practical operation. In addition, this article is able to show the potential investors the corporation business, and help them to make the investing decision, what is more important, providing solutions for Meta or the company which has the similar problems to tackle with the existing problems. As a result, the world will witness the further development of related technologies and cultural landscape as the tech giants address their own financial issues.

2. Financial analysis

Meta, which is known as Facebook before, is a famous American internet company. Meta makes a name for itself through Facebook, and now it contains more social media such as Instagram, WhatsApp messenger and threads, armed with more than 1 billion customers. The major business of the company nowadays is social media and digital advertisement, with a lot of funding used on VR and AI.

For the table 1, it is obviously that current ratio is continuously rising in three years. This maybe because with the development of artificial intelligence, the profit will be increased significantly compared with other industry and the cash increases as well [7]. As a result, the increasing speed and amount of current asset overweight the current liability. The receivable turnover rate in table 1 is dropping and rising in three years. This may cause by national economic background, especially, the economic policy [8]. In 2022, to deal with the high inflation rate, the federal reserve bank of the US has risen the interest rate, as the result the cost of borrowing money increases [9-10]. And the customers of meta do not enough money to pay the bill. To retain the customer resource, meta is forced to extend the customer's payment period.

Table 1. Liquidity ratio of meta during 2022 to 2024 [11-13]

	2024	2023	2022
Current ratio	2.98	2.67	2.2
Acid-test ratio	2.82	2.55	2.01
Receivable turnover rate	9.68	8.34	8.66

From the table 2, it is clear that the gross profit rate and net profit rate are increasing respectively [11-13]. With the help of AI, especially, the Meta-lattice, the meta is able to increase the relevance of advertisement provided to users, thus the click rate rises, in the end it can rise more advertisement income [14,15]. What is more, the AI helps to manage the cost better, so the cost of sales decreases. As for net profit rate, it can be seen that meta has lay off so much employees, and the cost of salary decreases. In addition, meta has extend the depreciation period, so the depreciation cost is reduced [16]. At the same time, in table 2, it is obvious that ROCE in 2024 is nearly twice of 2022's. Meta has repurchased a lot of shares, so the amount of equity is reduced. And the extending depreciation period, dismissal have reduced the cost. However, the asset turnover rate does not meet any change. This means the synergistic growth of assets and profit.

Table 2. Profitability ratio of meta during 2024 to 2022 [13-15].

	2024	2023	2022
Gross profit rate	81.7%	80.7%	79.6%
Net profit rate	37.9%	29%	19.9%
Asset turnover rate	65%	65%	66%
ROCE	35.1%	25.3%	18.7%

In table 3, it is obvious that the times interest earned is declining in recent years. From 2022 to 2023, Meta has an increasing amount of capital expenditure and share repurchasing in order to raise more funding for its artificial intelligence program. As a result, the company has more serious liability burden. In addition, the reality labs has poor profitability, and a large amount of losses have occurred. Although the company still hold a large amount of cash inflow, these factors have drag down the overall profitability.

Table 3. Solvency ratio of meta during 2024 to 2022 [13-15]

	2024	2023	2022
Times interest earned	97.6%	112.6%	209.7%
Debt-assets ratio	21.2%	19.4%	17.4%

It can be recognized from table 4 that Meta has continuously spent money on AI, and the price fluctuates. However, during the beginning of 2025, many managers have retired, investors have worried about the AI strategy stability [16]. After that, the financial performance of Meta is good, since Meta has promised the return of capital to its shareholders, which shows the managers' confidence of future cash flow and the better capital allocation.

Table 4. Share price changes [17]

2025.1-3	2025.3-5	2025.5-7	2025.7-9
594.25-736.67dollars	479.8-655.05dollars	572.21-738.09dollars	695.21-796.25dollars

3. Analysis of the problems

3.1. Too much funding on AI facility and the not positive return

As the digital advertisement and leading-edge technology giants, Meta's operational profit is 69.38 billion dollars during 2024, but capital market has confusion on its strategy investment and sustainability. According to Meta's first quarter financial report, the expenditure of first quarter is 17 billion dollars, about 37% more than before, and AI facilities such as GPU cluster and database centre, contains 72 percent of them. However, Llama series does not meet efficient profit model. Therefore, the income and the expenditure mismatch [18]. According to multivariate regression model, every 10% increasing in AI research and development expenditure, the operational profit rate will decrease 1.3%. The average return period of AI project is 3-5 quarters. In order to release the funding pressure, Meta has launched 5 billion dollars commercial papers, which increasing the percent of short-term debt. What is more, the free cash flow drops by 28%, because raising short-term debt to funding AI chip purchasing. During the third quarter in 2024, reality labs which is responsible for Meta verse, has loss 4.43 billion dollars, the has operational income of 0.27 billion dollars. This trend will continue because more funding is used on development of Meta verse products, and since 2020, this department has burned more capital. In comparison, the capital investment intensity of Meta's AI project is greater, but the marginal revenue of every dollar spent on AI is 28% lower than its competitor from other company. The department has burnt much money which can be originally used by central project and shareholder's return. This will lead Investors to show the attitude of concern and worry [19].

3.2. Excessive reliance on advertisement revenue for income

The revenue structure of meta is too monotonous [20]. In 2022, advertisement income contains 97.5% of the total income, and in 2023 this number is 97.2%, with 96.8% in 2024, the other business part, such as VR headset and quest store, contains about 2%. In comparison, around 80% revenue in google is achieved by advertisement income [21]. And faced with the competition with new technology company such as Byte Dance, which offer the relatively lower advertisement expense, this income structure has potential risk. Meanwhile, when the macroeconomic situation gets worsen, the advertisement income will be declined, especially when cost of borrowing money raises, customers will have less cash to pay the bill, thus the advertisement income will drop. During 2024, the advertisement revenue of meta has suffered loss in Asia market because of trade dispute between China and America. In 2022, because the renew of IOS system, the precise advertising placement ability of meta, and meta has suffered huge loss as well.

3.3. The worse debt repayment capacity

Until 2025 third quarter, meta has total debt of 69.84 billion dollars, while long-term one and short-term one is 41.22 billion dollars and 28.63 billion dollars respectively. Although the free cash flow is stable, debt finance is increasing. Additional funding is required by the construction of artificial intelligence database centre. Although meta is not lack of capital, this trend is at the propose of locking low interest rate and ensuring the sustainability by launching large amount of commercial papers [22]. Also, meta has repurchased some of its shares. And because the bad performance of AI project, the return on capital is not positive [23]. The ratio of debt and equity is 45.6%, showing the medium-low risk, and the increasing gearing ratio will make the investors worry about the debt repayment ability and the future of this company [24]. As a result, an abnormal negative loss happens on Meta’s stock price. Because shareholders are lack of confident that meta raise huge amount debt for high-risk AI project which has long return period. As a conclusion, the worsen debt repayment capability is caused by Meta’s aggressive strategy.

4. Solutions

4.1. Clarifying project goals and strengthening responsibility-based management

Meta can divide each AI development project into three steps, namely, fundamental research application development and business, and set the clear criteria for them [25,26]. Each quarter check whether the project has meet the target. The project which fails to meet its target, such as failing to finish target in time or overrunning cost, should be stopped. Then the resources need to be transferred to other relatively more profitable program. The measurement way including calculating the residual value of the assets and the opportunity cost [27,28]. Such checking program should be taken each season. The investment in AI project should be regarded as an option, namely, whether the company want to pay now for the next step of the IT program. Excluding the financial standard, the non-financial criteria such as the technical risk and strategy importance should also be considered [29]. In addition, the independent AI investment committee which consists of external technical expert and venture capitalist. Using the limited liability system to manage the project. They share the profit if success, and take the loss together [30].

4.2. Expanding online shopping to reduce reliance on advertisement revenue

To deal with reliance on advertisement income, Meta needs to expanse the non-advertisement business, namely platform escape. Meta can offer the shopping function in Instagram, as a digital market [31]. And charging each business about 2%-5% brokerage in order to create more non-advertisement income, also, create an independent digital platform to remove the negative influence of IOS system. The gross merchandise volume in Instagram in 2024 is 42 billion dollars, the brokerage income has a lot potential opportunity. The same online business can also be used on

WhatsApp messenger pay, just like the Ali pay. When the digital market volume is increasing, and the sustainability of brokerage business is promised because user participation purchase rate is considerably higher on social media business, just like what TIK TOK is doing in main land China [32]. But meta should try hard to protect the personal information of its customers [33]. In addition, meta should accelerate the commercialization transformation of AI facilities, such as Llama API, and set the relatively lower price than its competitor such as Open AI. And since advertisement business has brought large revenue, a large part of them should be spent on new project research and development, in order to accelerate the speed of R&D.

4.3. Utilizing preference shares enhance solvency and using asset-liability hedging method

To deal with increasing gearing ratio, meta could launch more preference shares by the way of right issue to replace some debt. Preference shares will not dilute the control of the company, and more capital can be funded, in addition, the interest expenditure and gearing ratio can be decreased, and since the risk of bad debt in preference shares is lower than ordinary shares, investors will be more willing to buy the shares [34,35]. At the same time, the matching principle can also be used on project [36]. The short-term loan note is used by advertisement technique enhancement, while long-term loan note will be spent on Meta verse, which has relatively longer return period. In order to hedge the liability with certain asset, in other word, the duration matching [37]. Under this method, no matter what is the time, the current asset will be enough to fulfill the liability and the long-term interest rate of long-term liability will be locked. During 2008 the US subprime mortgage crisis, many companies which is lack of current asset to hedge the current liability went to bankrupt finally [38]. As additional benefit, the finance cost can also be lower, and the solvency ability can be improved [39].

5. Conclusions

This essay mainly uses the financial analysis such as liquidity, profitability, solvency, stock price, in order to measure the business situation of Meta. After considering the annual reports of different years and calculating relative ratios, the conclusion is that although Meta’s business situation is so good that more profit is made, and bankrupt is away from, the problem of reliance on advertisement revenue and over allocating capital on artificial intelligence program whose current earnings are very good, worsen solvency ability because of more loan note is relatively prominent. To release the over-reliance on advertising, Meta need to expand business on online shopping; to solve the problem the excessive allocation on artificial intelligence program which has unfavourable return currently, Meta needs to Clarify project goals and strengthen responsibility-based management to unnecessary expenditure and hedge the expenditure by cash inflow relatively earlier; to enhance the solvency ability which is caused by large amount liability for developing AI projects, Meta need to utilize reference shares and use asset-liability hedging method.

There still stays some issues in this essay. Due to lack of some relative database, estimation is inevitable, some ratios may be not so precise. In addition, these research methods only focused on certain aspects of Meta's finances and thus have limitations. They cannot fully and thoroughly reflect Meta's operational situation. Therefore, the proposed suggestions are not comprehensive enough and cannot solve all of Meta's problems. Moreover, the suggestions are only presented from a macro perspective and provide a general action guideline. The specific implementation, such as how much investment to increase in the AI project and in which countries and regions to expand the online education program, needs to be further refined by subsequent researchers.

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