SLUG FUND

October 2026



SFIG Insta

How a company that charges its users nothing brought in $201B last year, and where that money is going next.

SFIG Linkedin

SFIG Website

Meta: the business model behind the apps

Nasdaq: META

WHO IS META

The company behind the apps

2004
Founded as TheFacebook

2012 · 2014
Buys Instagram, then WhatsApp

2021
Renamed Meta

2026
Launches Muse

FREE APPS · PAID FOR BY ADS

Facebook · Instagram · WhatsApp · Messenger · Threads

3.60B people use one daily

HARDWARE · SOLD




Ray-Ban and Oakley Meta glasses, Quest headsets

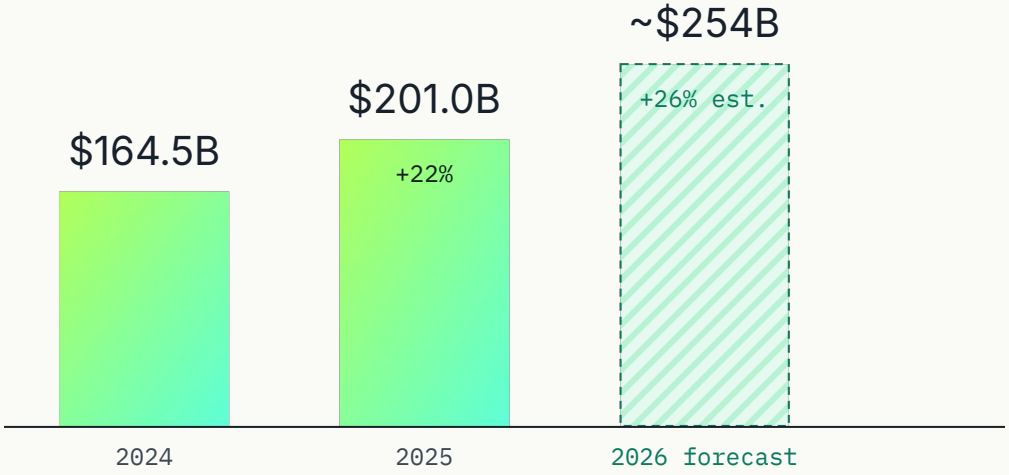
AI · FREE AND PAID



Meta AI assistant and the Muse agent

THE NUMBERS

Revenue keeps climbing, and so do users





SECOND QUARTER 2026

$60.8B

Revenue, **up 28%**

3.60B

People using a Meta app daily, **up 3%**

2025 also brought $83.3B of operating income, a 41% margin.

Meta results. 2026 forecast = Zacks consensus, not guidance.

Advertising was 97.6% of 2025 revenue

Ads $196.2B

Other Family of Apps $2.6B · **Reality Labs** $2.2B

Family of Apps

$198.8B revenue · $102.5B operating income

Facebook	Broadest reach, largest ad surface
Instagram	Reels drive most new ad slots
WhatsApp	3B+ users, business messaging
Messenger	Chats with businesses, often from ads
Threads	500M+ monthly users, ads rolling out
Meta AI	Free assistant in every app, no revenue yet

Other revenue: WhatsApp business messaging, Meta Verified, and soon Muse plans

Source: Meta fiscal 2025 results. Muse launched September 8, 2026 and is not in reported numbers yet.

Reality Labs

$2.2B revenue · $19.2B operating loss


Quest 3 / 3S


Ray-Ban Meta


Oakley Meta


Ray-Ban Display

- About $9 spent for each $1 of revenue
- Roughly $80B to $90B lost since 2020



THE REAL PRODUCT

How is Meta getting paid?

1. Users supply the attention

-Users pay $0 to use their apps

-Apps bring in 3.60B users everyday

2. The apps turn time into ad slots

-Every scroll through Feed, Reels, Stories or Search opens a slot Meta can sell.

-More time users spend means more slots, at almost no added cost.



3. Advertisers can buy these ad slots and revenue is generated

-They get an audience, and

-Meta gets paid every time an ad is shown.
-and the revenue backs it up



Meta’s Advertising Business Model

Buying an ad on Meta isn’t like buying a billboard. You don’t just pay and your ad goes up.



Meta’s Advertising Model is like an Auction

-Every time a spot(ad slot) opens in someone's feed, businesses compete for it in a split second.

-Meta AI algorithm picks the winner on three things:

1. What a customer is worth to the business (value per result)
2. How likely this person is to act — click, buy, sign up(expected value of a result)
3. Whether people will like or hate the ad(ad quality)

Highest bidder doesn't always win — a small local shop can beat a giant chain if the person is far more likely to walk in.

BUYING AN AD, STEP BY STEP

Maria's coffee shop in Santa Cruz Simulation

https://muse.ai/s/meta-ads-purchasing-simulation-xbxk6u4xfstxoxxxb



Pricing Power: Revenue is impressions times price

+14% Ad impressions × **+12%** Average price per ad = **+28%** Revenue (1.14 × 1.12 ≈ 1.28)

Impressions grow when people spend more time in Reels and Feed.

Price grows when ads convert better, because advertisers bid that gain back.

This is where AI already pays. It makes each ad slot worth more to the advertiser.

Source: Meta second quarter 2026 results



Then the last step feeds the first, and the loop starts again.

THE MOAT

Why advertisers find it hard to leave

3.60B

People use a Meta app every day. No rival offers that reach in a single purchase.

10M+

Active advertisers, most of them small businesses with no other channel this large.

PUTTING IT TOGETHER

Meta gives the apps away free and sells advertisers the attention and for actions they measure, such as clicks, leads and purchases.

REALITY LABS

Glasses are carrying Meta's hardware bet



Quest 3 / 3S

VR headset · sales falling



Ray-Ban Meta Gen 2

$379



Oakley Meta

$499



Ray-Ban Display + Neural Band

$799

~7M glasses

Sold in 2025, three times 2023 and 2024 combined

69% to 84%

Estimated global share of smart glasses

Quest −16%

5.6M headsets in 2024, about 1.7M in Q1 to Q3 2025

Glasses built with EssilorLuxottica. Meta Glasses start at $299. Images are product renders.

INTRODUCING MUSE

Muse: Meta's new model and agent



Muse Spark · the model

Meta's first frontier AI model, released April 2026. It now powers Meta AI, the assistant Meta launched in 2023.

Muse · the agent

Launched September 8, 2026. It does tasks for you, like booking, buying and filling out forms.

Pictured: Wally, the Muse agent

MUSE PRICING

Meta's first paid AI subscription is priced by usage

FREE

$0

100M tokens a week · US and Canada at launch

POWER

$20/mo

500M tokens a week

MAXIMUM

$100/mo

3B tokens a week

Paid tiers add usage. Prices are set to cover compute for heavy users.

Where revenue lands. Other Family of Apps revenue, which was $1.0B in Q2 2026, up 73%.

Safety. Muse asks before sensitive actions, behind the Sentinel and Secure VM layers.

Distribution. Offered to 3.60B daily users at no acquisition cost.

Source: Meta Help Center for tier limits

MUSE TRACTION

A fast start, and $5B to $11B in analyst scenarios

2.8M
Downloads in 12 days, 3.4M by late September

1.8M
iOS downloads in the comparable window, vs. 1.3M for ChatGPT at launch

+20%
Stock move in September after launch, about $200B of market value

ANALYST SCENARIOS · ESTIMATES, NOT GUIDANCE

Goldman Sachs	10M subscribers would be about $2.4B a year
Wedbush	About $5B by 2027
Jefferies (bull)	1B users with 3% paying is $10.8B a year. Target $875. JPMorgan $820, Evercore $860
Oppenheimer (skeptic)	Needs ~115M subscribers at $20 to move earnings. Only 13% would share all passwords

2026 OUTLOOK

What Meta guided, and what the Street expects

META'S GUIDANCE

$61–64B
Q3 2026 revenue

$165–169B
2026 expenses

$130–145B
2026 capex, about double 2025

Higher
Operating income vs. 2025

STREET ESTIMATES (ZACKS)

$254B
2026 revenue, up 26%

$31.39
2026 EPS, up 34%

$307B
2027 revenue, up 21%

$34.39
2027 EPS, up 10%

The test: can ad revenue grow about 26% while capex squeezes free cash flow?

Guidance and consensus are separate. Meta gives no full-year revenue guide.

WHERE META IS HEADED

Ad AI grows sales today. Muse is built as a new revenue source.

ADVERTISING AI · WORKING NOW

- Better ad ranking lifted Facebook ad clicks 8.3% and conversions 15.7% in Q2 2026
- Ads that convert better let Meta charge more: price per ad rose 12%
- Advantage+, the automated ad tool, runs above $75B a year

MUSE · KEPT APART FROM ADS

- Meta says what you tell Muse stays out of its ad systems, and the app shows no ads
- It plans to earn from paid plans and a small cut of purchases Muse completes
- Its link to ads is as a tool, helping businesses build products and run ads

The contrast: chats with Meta AI have shaped ad targeting since December 2025. Muse is set up to make money directly.

Sources: Meta Q2 2026 results; Zuckerberg interview, Sep 8, 2026; Muse launch coverage

SFIG Website

Instagram

Linkedin

SLUG FUND · STOCK UPDATE · OCT 8, 2026

Lululemon (LULU)

Cheaper since last meeting — but the turnaround hasn't shown up yet.

PRICE · OCT 8 CLOSE

$92.68

▼ ~8% since Sep 29

Was $100.58 at our analysis · new 52-week lows

WHAT'S CHANGED

Guidance cut still drives it. FY26 revenue guided to $10.35–10.50B, EPS $9.48–9.73 after Q2 sales fell 4% (comps −10%).

Targets keep falling. Morgan Stanley $83, Barclays $95, Evercore $95 — consensus ~$107, mostly Hold / Reduce.

Leadership shakeup (Oct 8). New COO + new chief product officer from Athleta; three C-suite exits. Right direction, not proof yet.

THESIS CHECK

Still a turnaround bet.

At $92.68 the market prices LULU much closer to our bear case than our base case.



Bigger discount, bigger bear evidence — falling targets and management turnover look like struggle, not a bottom.

WATCH NEXT

1. **Q3 earnings, early Dec.** First real test — do comparable sales stabilize?
2. **New product leadership.** Does it show up in the 2027 merchandise story?
3. **The $73 line.** Below our bear case, even the turnaround math gets thin.

Bottom line: cheaper, not yet bottoming — December earnings is the test.

SEP 29 ANALYSIS
DCF BEAR $73 · BASE $230