

After a weak Q3, Meta has a very narrow path to right its ship

Article

The news: In a surprise to no one, **Facebook** and **Instagram** parent **Meta** did not turn its fortunes around in Q3.

- Analysts expected \$27.38 billion in revenue, per Refinitiv; Meta netted \$27.71 billion, down 4% from a year ago.

- The company reported 1.98 billion daily active users (DAUs) in September, a 3% increase from Q3 2021. It also had 2.96 billion monthly active users (MAUs), up 2%.
- StreetAccount's average revenue per user (ARPU) estimate was \$9.83; ARPU came in at \$9.41.
- Expenses as a percentage of revenue reached **their highest level in nine quarters**; relatedly, net income fell 52%.

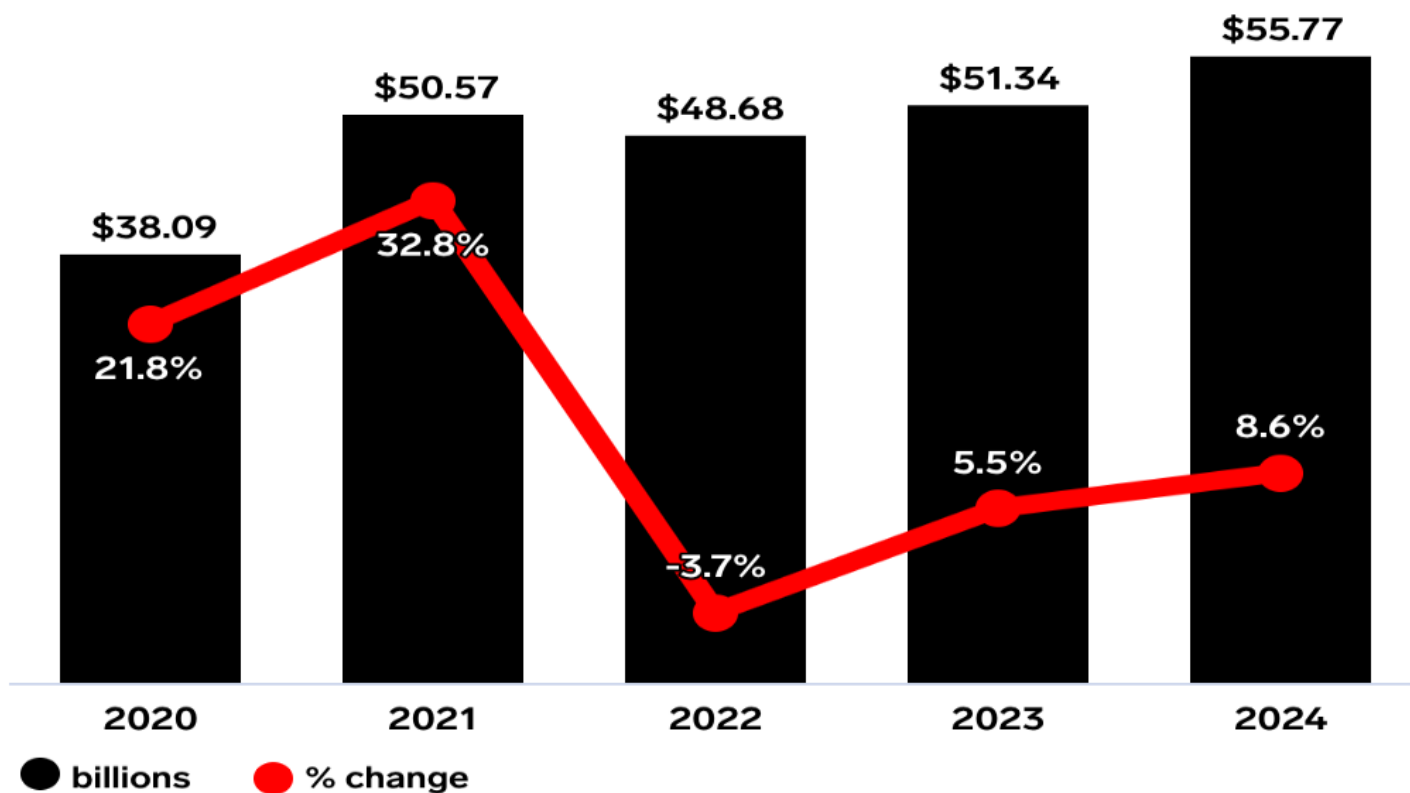
Q3 in hindsight:

- Earlier in October, Meta expanded its ad offerings for **Instagram, Messenger, and Reels**.
- Meta has agreed to sell Giphy to comply with the UK's Competition and Markets Authority (CMA), which initially ordered the company to do so in 2021.
- The company tried to push some longtime staffers out the door—something that has reportedly pummeled morale. Even with those quiet layoffs, headcount as of September 30 was still 28% higher than a year ago.
- Meta was accused of using an in-app browser as a workaround to counteract **Apple's** 2021 tracking changes, keeping advertisers focused on the lingering issues from the consumer tech giant's attempt to kneecap competitors' advertising businesses while building its own.

Looking ahead: Our newly updated forecast sees the company's ad revenues dropping 3.7% in the US this year. 2023 will bring a return to higher revenues, but even then, two-year annualized growth will come to just less than 1%.

Meta Ad Revenues

US, 2020-2024



Note: paid advertising only; includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices includes Facebook and Instagram ad revenues; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites; excludes spending by marketers that goes toward developing or maintaining a Facebook and/or Instagram presence; excludes revenues reported under Meta's Reality Labs segment

Source: eMarketer, October 2022

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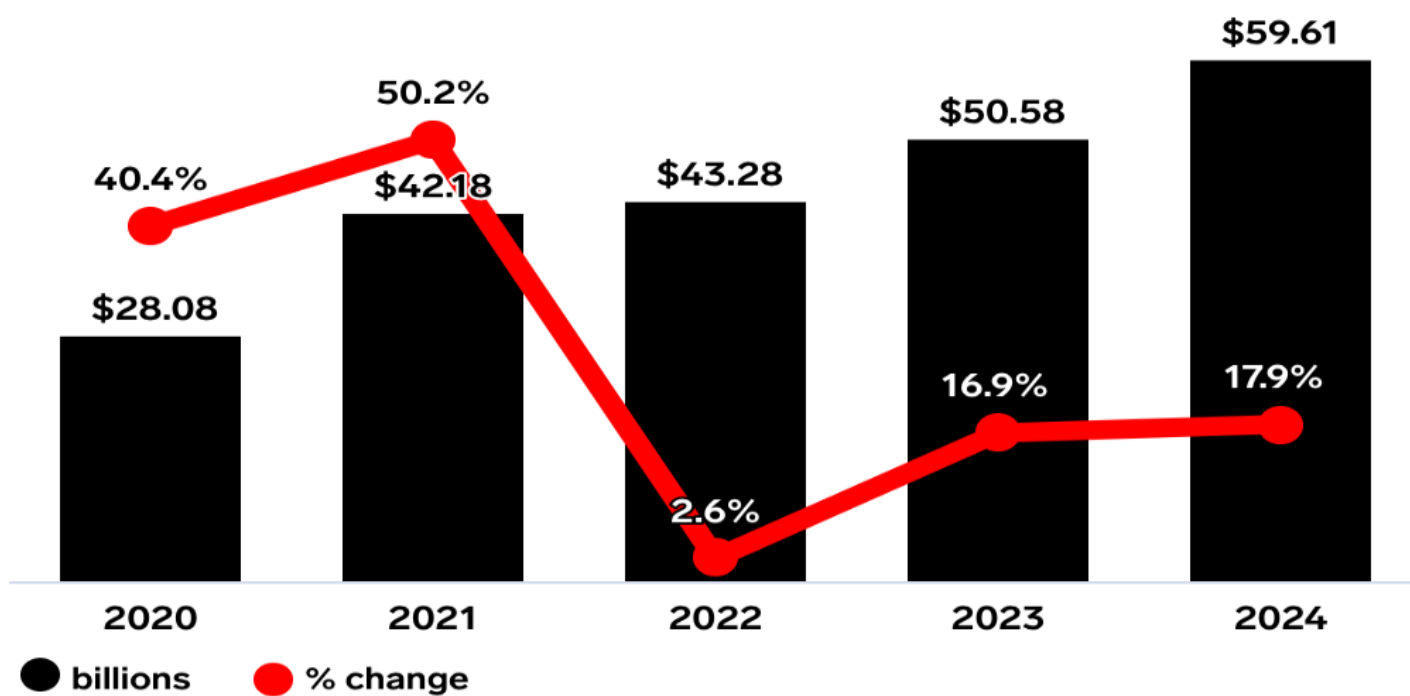
- We also expect Meta to experience a worldwide dip in ad revenues this year, but with [slightly more robust growth](#) (8.2%) next year.

The TikTok problem: The reason why Facebook purchased Instagram years ago has since become clear: It was the Facebook killer. Now, Instagram is going up against the Instagram killer.

- **ByteDance-owned TikTok** is waging war on Instagram's home turf with still photos and images, expanding its character count to promote discoverability, and even looking to build its own fulfillment centers.
- While our forecast still expects Instagram to eke out some growth this year, that's small consolation for a platform coming off a few years of substantial growth.

Instagram Ad Revenues

Worldwide, 2020-2024



Note: paid advertising only; includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices; includes advertising revenues from Instagram Feed, Instagram Stories, and other formats; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites; excludes spending by marketers that goes toward developing or maintaining an Instagram presence

Source: eMarketer, October 2022

eMarketer | InsiderIntelligence.com

Analyst insight: “To return to stronger growth, Meta needs to turn its business around,” said principal analyst **Debra Aho Williamson**. “As Facebook Inc., it was a revolutionary company that changed the way people communicate and the way marketers interact with consumers. Today, it’s no longer that innovative groundbreaker.”

The big takeaway: All Meta needs to do for us to adjust our Facebook and Instagram numbers upward, and keep advertisers engaged is this: more ad innovation; monetize Reels at a faster rate; solve out-of-control inflation; get Apple to reverse its 2021 changes; greater geopolitical stability; hope that TikTok implodes; and talk less about the metaverse. Then everything will be fine.

Go further: Read our new report, [*The Future of Meta*](#), which gives readers a two-year look at the company’s fortunes.