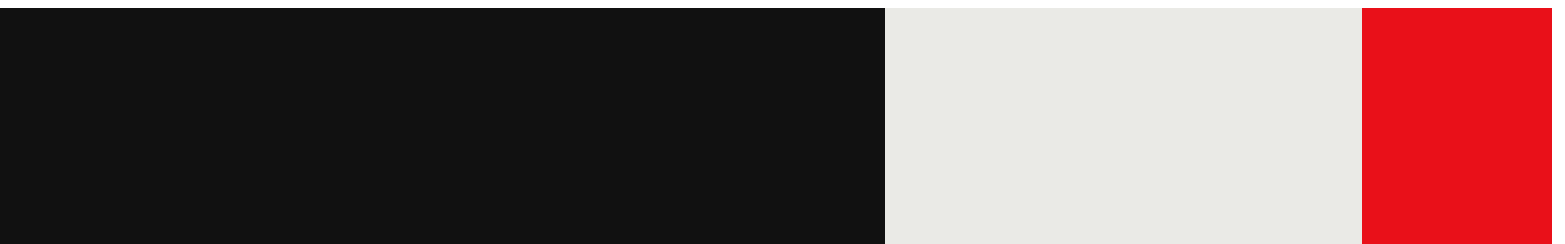


The Daily: Explaining Meta's sustained turnaround, the biggest threat it faces today, and more

Audio



On today's podcast episode, we discuss how Meta has been able to sustainably grow revenue again, whether or not it can actually be “the most used AI assistant in the world by the end of the year”, and what is atop the Meta threats list. Tune in to the discussion with host Marcus Johnson and vice president and analyst Jasmine Enberg.

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Episode Transcript:

Marcus Johnson (00:00):

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Jasmine Enberg (00:18):

That also means that Meta is making less money off of them, because both of these are under-monetized areas of Facebook, and also places that you could think about when you're considering where Meta might be starting to offer more options for advertisers in the future.

Marcus Johnson (00:41):

Hey, gang. It's Thursday, August 8th. Jasmine and listeners, welcome to the Behind the Numbers Daily, and eMarketer podcast. I'm Marcus. Today, I'm joined by our vice president and principle analyst who covers everything social media, based in California. It is Jasmine Enberg.

Jasmine Enberg (00:58):

Hey, Marcus. Hey, everyone.

Marcus Johnson (00:59):

Hello there. Today's fact. The first person to ever win a medal at the modern Olympic Games was 27-year-old James Connolly in 1896 in Athens. Connolly won the triple jump, then known as the hop, skip, and jump. I wish they hadn't of changed it, if I'm honest. Making him the first Olympic champion since the ancient Olympic Games, over 1500 years prior. He also, Jasmine, placed second in the high jump, and third in the long jump.

Jasmine Enberg (01:36):

Did those have different names, the high jump and the long jump?

Marcus Johnson (01:37):

No.

Jasmine Enberg (01:40):

I prefer hop, skip, and jump actually.

Marcus Johnson (01:42):

So much better, yeah.

Jasmine Enberg (01:43):

I don't think we should have changed that.

Marcus Johnson (01:47):

Tough to tell people though, isn't it? What are you competing in? "I don't want to talk about it. Just the [inaudible 00:01:51]." What was that?

(01:53):

Interestingly enough, why is the Olympics every four years? The timing of the Games originated with the first Olympics, believed to be held in 776 BC in Ancient Greece. According to the International Olympics Committee, time was then measured in Olympiads, which demarcated a four-year period. The ancient Games ended in 400 AD.

Jasmine Enberg (02:17):

Wow. I did not know that.

Marcus Johnson (02:19):

If anyone can find out why they measured time in four-year increments, please send me an email, podcast@emarketer.com. Because I looked for basically most of today, the whole day I've spent trying to find this.

Jasmine Enberg (02:35):

Yeah. I don't have an answer for you, but I hope of our listeners does because I would also love to know.

Marcus Johnson (02:38):

Yeah. It's not out there, it doesn't exist. They just did. Okay. Anyway, today's real topic, Meta's ad growth and how it's letting it spend big on artificial intelligence.

(02:54):

In today's episode, first, only, we're just talking about Meta. There is no first. Meta, and last meta. Okay, let's do it.

(03:02):

Jasmine, we're off to a flying start. We start with how much money Meta is making. We're playing Slice of Pie for this. Jasmine is going to create a pie chart for us as to the reasons, three max, why Meta was able to grow revenue 22% in Q2. That's close to double the same period a year ago. Good enough, Jasmine, for \$38 billion. How was Meta able to double revenue growth?

Jasmine Enberg (03:33):

I'm going to give it a 50/50 split on the state of the ad market, and then the strength of Meta's ad business.

(03:41):

We're seeing that ad momentum is good, but the dollars aren't exactly free-flowing. Whenever that's the case, you find advertisers really more focused on two things. That's tried and true platforms, as well as the lower funnel. Meta scores big on both fronts. It's become an essential platform for advertisers because of its scale, its ease of use, as well as its effectiveness.

(04:05):

It's a performance advertising powerhouse. What we saw in its earnings was that AI enhancements, notably things like Advantage Plus, have further improved the performance for advertisers, which is keeping them coming back to Meta's platforms. Another stat that stood out to me was that the top growth vertical for Meta in Q2 was commerce, which I think also speaks to Meta's strength in delivering results for advertisers.

Marcus Johnson (04:35):

I think that's a fair point. 22% growth, in context, marks Q2 was the fifth consecutive quarter of strong double-digit growth. It seems like it's a bit of a sustained turnaround for Meta. The five quarters before that, from 2022 into Q1 of 2023, growth averaged out at 0%. It's easy to forget, Jasmine, that Meta's not been doing amazing for just back, to back, to back quarters and years. There was a lull in there, which is easy to forget about.

(05:06):

The highly lucrative North American region grew 17%, up from 11 last Q2. That's also doing really well. Net income looks a lot healthier for a while now as well. The last four quarters of net income has averaged \$13 billion per quarter. The four quarters before that, net income average close to a third of that. The year of efficiency seems to have worked relatively well.

(05:29):

Jasmine, it's still squeezing more money out of each user. It's family average revenue per person, so it's got the daily average and I think they do monthly average. Daily active people number, and a monthly active people number, I think they've got two. Basically, if you count up all their platforms, Instagram, Facebook, Messenger, What's App, how many people did they have across the whole portfolio? They are averaging more money per person. It went from 10 bucks to 12 bucks per person from last Q2 to this one.

(05:59):

That's the high level number, Jasmine, which has gone up 6%. Daily active people number up 6%. Same growth as last Q2. They're not at over 3.2 billion people worldwide. But they have stopped telling us how many Facebook users it has. It never reported Instagram and What's App, and some of those other platforms. But we did get Facebook out of the earnings. We noted in Q1 that Meta had stopped telling us how many Facebook users it had. However, our forecasting team still puts estimates together on Facebook, and also Instagram users.

(06:32):

We'll turn our attention to those figures for some insights into how many people are using Meta's platforms. We'll start with Facebook. Worldwide, Jasmine, we estimate that Facebook has 2.1 billion, these are monthly users. That's growing at just under 1%. In the US, we estimate that Facebook has 178 million monthly active users.

(06:51):

You thoughts on our numbers?

Jasmine Enberg **(06:53):**

I think what's most interesting to look at here is which figures Meta is now choosing to report. It started the call with two really big user figures. It said that there are now 100 million monthly What's App users in the US, and 200 million monthly Threads users worldwide.

Zuckerberg also talked about changing the narrative around Facebook and young people. Earlier it had said that there are 40 million 18 to 29 year olds in the US and Canada who use Facebook daily.

(07:24):

The reason these figures are important to call out because it shows you where Meta's priorities are when it comes to growing its user base, and how it can use that growth to drive more revenue. If you look at What's App and Threads, these are both under-monetized spaces for the company, and where they can expand to if you're thinking about future revenue growth. What's App, of course, has a massive global user base, but it isn't as big in the US according to our figures. Meta has been rolling out business messaging tools to make money off of it, and it definitely needs the US because that's where the most money is to be made.

(08:00):

Now Threads, of course, doesn't have ads. We've heard that it could potentially be launching ads in the second-half of this year. The 200 million monthly active user figure, to me, is a nice number to share in an earnings call. The growth obviously has been really impressive. But it doesn't say much about engagement, which is of course something that Meta needs to monetize it effectively.

(08:22):

Finally, and this is the one that's most interesting to me, is that 40 million 18 to 20 year olds who use Facebook daily stat. Because it's true that you can find young people on Facebook. We're predicting that about half of Gen Zers will use Facebook monthly in 2024. But the reality is, is that they're spending more time elsewhere. When they are going to Facebook, it's for a very specific reason. They're going to Groups, or they're going to Marketplace. That also means that Meta is making less money off of them, because both of these are under-monetized areas of Facebook, and also places that you could think about when you're considering where Meta might be starting to offer more options for advertisers in the future.

Marcus Johnson **(09:07):**

What's interesting, Jasmine, about the Gen Z folks with Facebook is Facebook, we have losing 300,000 monthly active users in the US by next year. Facebook's been very slowly losing American users since peaking in 2021, according to our numbers. It's basically flat, but they're

losing a little bit. What's interesting though, it's the older generations who are leaving. Millennials, Gen X, and Boomers, they're seeing very small, very minor user declines next year. Gen Z is the group that's adding. They're still a small group, so they're growing from a smaller base. But they are the ones that are joining Facebook for those purposes that you mentioned.

(09:43):

They're also the story on Instagram as well. We estimate that, worldwide, Instagram has over 1.5 billion monthly users, growing to just less than 1.6 billion next year, so 6% growth. In the US, we think Instagram will add nearly six million new users next year, going from 143 to 149 million. But almost all of that growth is Gen Z is joining the platform. That's because they span from, what is it, 26 to 12. You're having a big hoard of folks who are starting to get on social media for the first time.

(10:17):

Really quickly also, Jasmine, on the What's App numbers. What's interesting is that, when we look at our figures by generation, we have Millennials as the most prominent users of What's App. 35% of them, Millennial smartphone users using What's App. 35% versus 25% for the younger Gen Z, and 25% for the older Gen X. Very interesting trend there, with that Millennial group driving What's App.

Jasmine Enberg **(10:40):**

That makes a lot of sense to me, actually. If you think about how young people are using social networks and messaging apps. Snapchat, for example, is a messaging app for younger people. People us DMs on Instagram. It makes sense that they would be less likely to be using What's App than Millennials or older generations.

Marcus Johnson **(11:02):**

Yeah, that's a good point. You mentioned AI and how much that has helped Meta with its revenue growth at the top of the show. Another comment that Chief Executive Mark Zuckerberg had mentioned regarding AI was, "Meta AI is on track to be the most used AI assistant in the world by the end of the year."

(11:24):

What's your take on this and Meta's recent AI efforts as a whole?

Jasmine Enberg (11:30):

When Meta AI was first released, I said that it could be a dark horse in the race to AI, and I still think that's true. Meta only needs about 43% of Facebook users in the US to use Meta AI monthly for it to be as big as ChatGPT is here by the end of the year. That's not entirely unthinkable, if you think about the rise of social search, and how prominently and permanently Meta AI is displayed in Meta's apps.

(11:58):

I think part of its success, or a large part of its success, is going to be dependent on how good the technology is that is underpinning Meta AI. Of course, Meta recently rolled out Llama 3. It said on the earnings call that it's working on Llama 4. They're clearly investing a lot in their large language models to continue on this race to AI.

(12:20):

As we talked about before, it's also clear that these AI investments that it's made in its ad business are already paying off in its revenues. That bodes really well for some of the larger bets that it's making in AI. I'm particularly interested in the gen AI ad creative that Meta teased on the call, although it said that it wouldn't be available until later.

(12:42):

But if you think about beyond advertising, and those bigger gen AI bets, like the business or the custom AI agents that it talked about, those are going to take a much longer time to pay off. Meta's already missed the mark. It just folded its celebrity-inspired AI chatbots, which was actually one of my big predictions for 2024.

Marcus Johnson (12:42):

Killing it.

Jasmine Enberg (13:03):

This, to me, says two things. One, that Meta is willing to scrap efforts that aren't working, even in AI. But on the other hand, it is concerning given how expensive these chatbots were, and how much money that Meta is planning on spending when it ramps up AI spending in 2025.

Marcus Johnson (13:03):

Yeah.

Jasmine Enberg (13:24):

But the big picture here is this. AI is a race that Meta cannot risk falling behind in. The good news, from its earnings which we saw, is that it has proven that it can afford to be in it.

Marcus Johnson (13:37):

Yeah. Yeah, these technology companies increasing cap ex has been startling. We're only at the very beginning of the AI race, it seems.

(13:44):

I love things going well for Meta making a lot of money. AI efforts, by and large, are for the most part going well. Let's look at Meta through a different lens. What do you see as their biggest threat at the moment?

Jasmine Enberg (13:58):

Yeah. Well, Meta is still very much an advertising-based business, we know this. That means it's subject to any volatility or fluctuations in the ad market. I think even as we're seeing other social and big tech ad businesses suffer, Meta still feels unstoppable right now.

(14:13):

What I would call out as their biggest threat is the decay of Facebook. It's certainly not an immediate threat. You talked about how Facebook has been slowly losing users in the US. Meta is certainly trying to get ahead of it, with some of its language on the earnings call. Changing that narrative around young people, for example. But the reason I say that it's the biggest threat is because Facebook is still its biggest money maker, even though Instagram now accounts for close to half of Meta's ad revenues.

Marcus Johnson (14:42):

Right.

Jasmine Enberg (14:42):

Despite, again, what Meta says, it's just not where young people are spending their time. Young people are one of Meta's biggest sources of new growth, both when it comes to users

and revenues.

Marcus Johnson (14:54):

Lots of different parts of Meta's business. One that they've talked about a little bit less, or a lot less as of late, is their Reality Labs unit. Salvador Rodriguez at The Wall Street Journal was nothing that, "Operating losses in Meta's Reality Labs unit," which produces the Quest headsets and RayBan Meta smart glasses, the losses or predicting losses, "are set to increase meaningfully" in the remainder of 2024. They lost \$4.5 billion in Q2 alone.

(15:23):

Jasmine, what's your take on this part of Meta's business?

Jasmine Enberg (15:25):

Well, they've been pretty quiet about it. Executives only said the word Metaverse three times on the earnings call, which is down from 12 exactly a year ago. I think that helps to show, again, where it's focused, or at least what it wants to stress about its business. We know that there have been some signs that Meta's been pulling back on its Metaverse spending. But as you said, it's still incredibly expensive. They reported nearly a \$4.5 billion loss last quarter.

(15:54):

Where we did hear Meta talk about the Metaverse was really in the context of AI, and how that is helping to shape the work there, and how the two are complimentary. Meta talked about AI speeding up timelines for work within Reality Labs and the RayBan smart glasses. Overall though, Reality Labs accounts for less than 1% of Meta's total revenues, so it's certainly a very small part of its business.

Marcus Johnson (16:18):

I did think something that was noteworthy is two weeks ago, Reuters reporting that Meta in talks to buy a 5% stake in RayBan maker, Essilor Luxottica. Yeah. Maybe this seems like it could be an investment to double down on their commitment to smart glasses, and trying to put some of the technology in those.

Jasmine Enberg (16:37):

Well, Zuckerberg did say ... I was on an interview with the BBC and they quoted him, so excuse me if I misquote a little bit. Zuckerberg said something along the lines of, "Smart glasses will overtake mobile phones." This is clearly something that he's heavily invested in and believes in.

Marcus Johnson (16:55):

Did he give a timeline? Next week?

Jasmine Enberg (16:59):

Yeah. That I don't know, off the top of my head.

Marcus Johnson (17:01):

At some point. Probably not, but we'll see.

(17:05):

Great time. What grade, Jasmine, would you give Meta for Q2?

Jasmine Enberg (17:09):

I got to give Meta an A. It's ad business performance was incredibly strong.

Marcus Johnson (17:14):

Okay. I believe, yeah, A in Q1 as well. That was coming off 27% growth. 22% revenue growth this quarter, so it seems fair. Not only is it making a lot of money, but as I said, profitability, net income has been very high for a number of quarters now, in keeping with this year of efficiency mantra.

(17:34):

Headcount, Jasmine, is up a little bit, but remains nearly 20% below the company's late 2022 peak. Revenue per employee is up over 50% from that time. It seems like they're doing a lot, lot more with less. Third quarter revenue expected to beat analyst expectations, according to FactSet data. We shall see.

(17:55):

That's all we've got time for, for today's episode. Thank you so much to Jasmine, for hanging out with me.

Jasmine Enberg (17:59):

Thanks for having me.

Marcus Johnson (18:00):

Thank you to Victoria, who edits the show. Stuart runs the team. Sophie does our social media, so thank you to her. Thank you to everyone for listening in. We hope to see you tomorrow for the Behind the Numbers Weekly Listen. That's an eMarketer video podcast you can watch on YouTube, or you can just listen to it the usual way.