As it enters its 'year of efficiency,' Meta tries to regain its focus

Article

The news: **Meta** delivered better-than-expected fourth-quarter revenues on Wednesday:

Meta's Key Metrics Snapshot, Q4

	Q4 2022	Q4 2021	Change
Revenue	$32.17 billion	$33.67 billion	-4%
- Family of Apps Revenue	$31.44 billion	$32.79 billion	-4.1%
- Reality Labs Revenue	$0.72 billion	$0.88 billion	-18.2%
Facebook daily active users (DAUs)	2.0 billion	1.93 billion	3.6%
Facebook average revenue per user (ARPU)	$10.86	$11.57	-6.1%

Note: Family of Apps is defined as Facebook, Instagram, Messenger, and WhatsApp; Reality Labs includes augmented and virtual reality related consumer hardware, software, and content.
Source: Meta, "Fourth Quarter and Full Year 2022 Results," February 1, 2023

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- Ad impressions were up 23% year over year, while price per ad was down 22%.
- It was the company's third consecutive quarter of declining sales due to sluggish advertiser demand in a crowded social media environment. Despite that, the company's rose nearly 19% in after-hour trading because of planned cost-cutting measures (more on that below).

Losing focus? Given all the talk of the metaverse, there's a perception among advertisers and investors that the company has lost direction. Meta technology chief **Andrew Bosworth** even suggested as much in his personal blog over the weekend, saying that the company was more focused in its early years, and challenges arise with being large.

- Advertisers have been asking the company to concentrate on its main advertising business, which is facing challenges including slackening spending, increased competition from players like **TikTok**, and **Apple**'s year-and-a-half-old privacy regime.
- The company has been widely criticized for leaning too hard into its metaverse ambitions—which may bear fruit, but its timing and lack of a compelling product make it hard to defend in today's market.
- CEO **Mark Zuckerberg** seems to have taken some of the criticism to heart: on its earnings call, he said he was referring to this as the "year of efficiency." As a result of the falling revenues, Meta recently laid off 11,000 employees, about 13% of its staff. Zuckerberg's comments make it very likely that more cuts are on the near-term horizon.

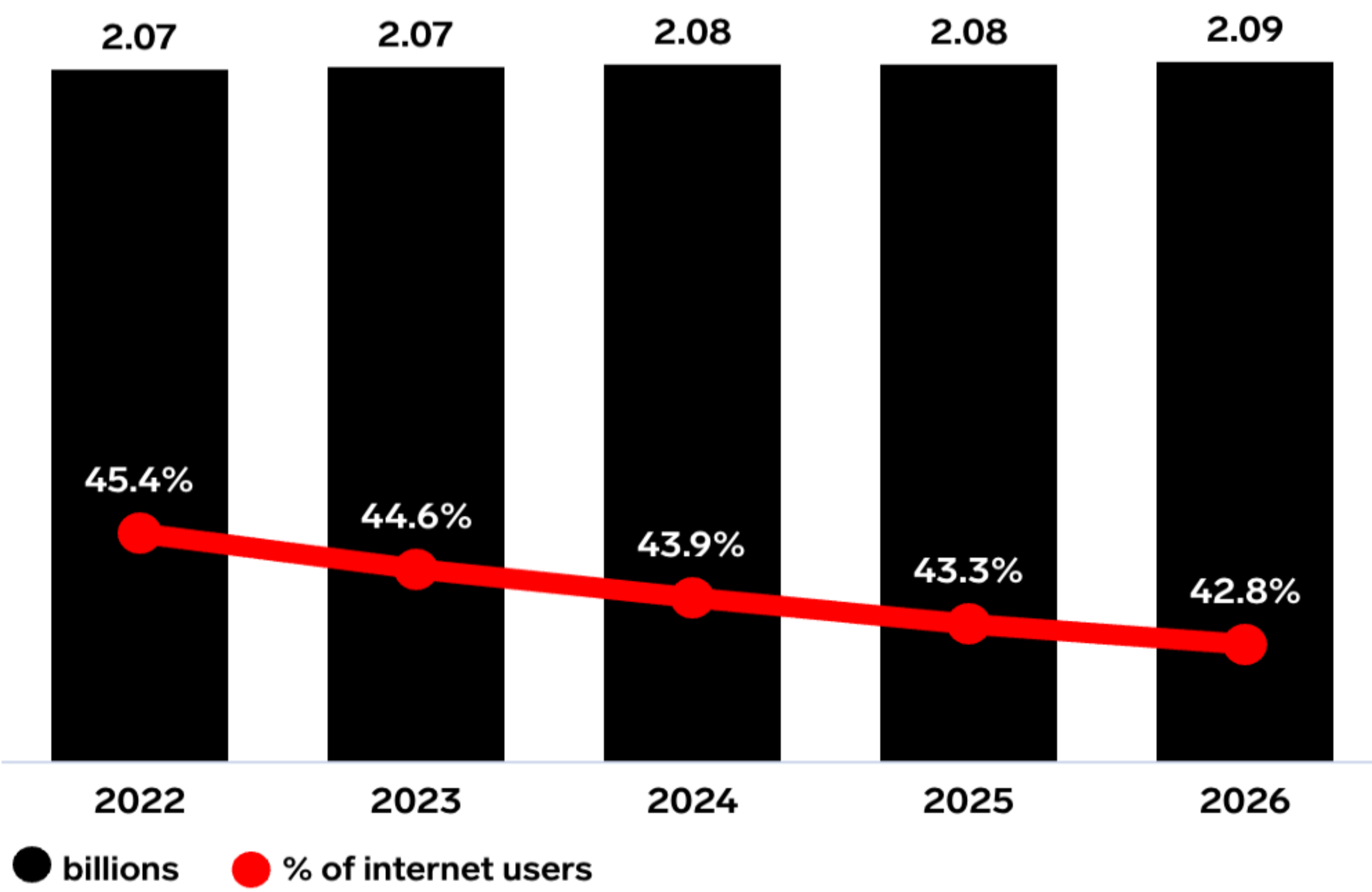
Analyst insight: "TikTok is one reason why Meta's share will decline, but it's not the only one," said principal analyst **Debra Aho Willliamson**. "Another looming source of competition are retail media networks, where advertisers can reach buyers directly" via **Amazon**, **Walmart**, and **Instacart**, she notes. These businesses represent the third wave of digital advertising after search and social media, and are increasingly vying for the same ad dollars Meta is trying to attract.

Our take: If Meta executes well, it can bounce back from its 2% ad revenue drop last year and return to growth in 2023 (8.2% according to our latest forecast).

- Whatever the company does, its share of global digital ad spend will keep dropping. We expect it to fall to 19.4% this year after it reached an all-time high of 22% in 2021.
- This year, **Facebook** will see its lowest-ever share of Gen Z in the US, at 55.6%. That number will curve upward beginning next year as that generation ages.
- Part of why its share of spend is going down is because its key platforms don't have the market penetration they used to: Facebook itself will experience little to no user growth over the next few years at a time when internet users are on the rise. That's a problem, especially when you're cutting innovation elsewhere in the company.

Facebook's Declining Share of Internet Users

Worldwide, 2022-2026



Note: internet users of any age who access their Facebook account via any device at least once per month
Source: eMarketer, December 2022

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