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Meta's ad sales growth—the slowest in a decade—may hamper its metaverse ambitions

Article

The news: **Meta** posted earnings that were mixed, but not entirely disappointing—though its ad sales growth was the lowest it's been since the company (then called **Facebook**) went public a decade ago.

- Analysts expected ad revenue of $28.3 billion for Q1 2022, up more than 8% vs. a disappointing final quarter of 2021. It came close but, at **$27.91 billion**, fell short.
- Wall Street expected Facebook to increase its daily active users (DAU) to 1.95 billion; it did slightly better, at 1.96 billion, representing 4% growth. Those users had dropped by two million last quarter, which sent shockwaves through the marketing world as it was the first such drop ever for the company.

Apple changes bite: Investors were looking for signs that Meta has made headway in limiting the impact that **Apple**'s iOS ad-tracking modifications had on its advertising business last year. The answer: inconclusive.

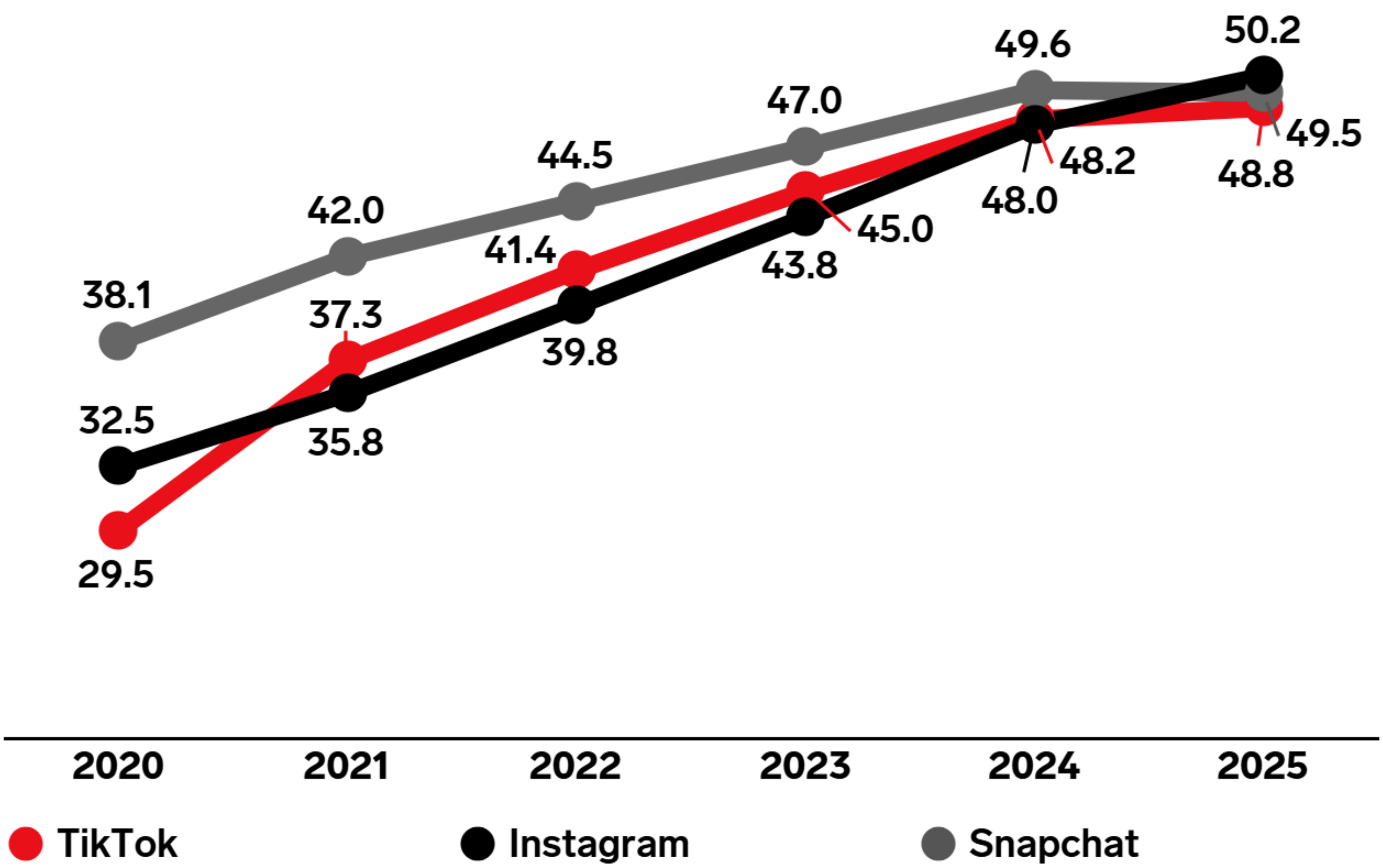
- Apple published a curiously timed white paper the day prior by Kinshuk Jerath, a professor at Columbia Business School, who suggested it's hard to specify any effect Apple's privacy rules had on moving advertising income from platforms like Meta to Apple.
- Meta rival **Snap** released earnings last week that showed Apple's privacy regime is still affecting its advertising revenue. **Google** parent **Alphabet** reported slower Q1 sales growth this week, particularly at **YouTube**.

Focus on Gen Z: With **TikTok** continuing to outperform Meta properties at winning over younger users, the Facebook and **Instagram** parent has been inspired to diversify its revenue streams—but those attempts, thus far, haven't been all that inspiring.

- Meta's expansion of its short-form video feature **Reels** is a minor tactical move rather than the kind of true innovation investors—and social media users, particularly younger ones—crave.

Gen Z Instagram, Snapchat, and TikTok Users in the US, 2020-2025

millions



Note: individuals who access their account at least once per month; born between 1997 and 2012
Source: eMarketer, November 2021

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Another problem: Reels just isn't monetizing at the same rate as its **Feed** and **Stories** formats, but it *is* eating into time spent on those legacy formats. That's likely because keeping ads to a minimum helps build an audience; more efficient monetization can and will come over time. Alphabet chief **Sundar Pichai** made that point on a Tuesday earnings call touting the growth of **Shorts**, YouTube's TikTok competitor.

Analyst insight: DAU growth is a positive sign for Facebook "especially coming off of Q4 2021 when it experienced its first-ever decline in DAUs," said analyst **Evelyn Mitchell**. "But it's also clear that Facebook is still struggling to bring in new users, and it's becoming increasingly difficult for Instagram to pick up the slack." But Mitchell notes that a significant portion of that DAU growth came outside of North America, and those markets bring in less ad revenue per user than the US and Canada.

Reality check: The company's Reality Labs unit, which is responsible for virtual reality (VR) and augmented reality (AR) hardware and software, brought in Q1 revenue of $695 million, up over 30% from the year prior. But it had losses of $2.96 billion—nearly 62% higher than its year-earlier quarterly loss.

- Without legacy advertising sales to fund its metaverse ambitions, the company will "slow the pace of some of our investments," CEO **Mark Zuckerberg** said on the firm's earnings call.
- Meta's global headcount was 77,805 at the end of Q1, up 28% from a year earlier. Roughly 17,000 employees belong to the Reality Labs unit. That means about **22% of the company is responsible for about 2.5% of its revenue**—an untenable ratio.
- Meta needs to focus on righting the ship in its core operations before further extending itself in business lines that may take years to provide substantial returns.