

# Meta's earnings miss demonstrates the vulnerability of its ad revenue model compared with Google's

Article

**The news:** Meta's weak earnings report sent its stock tumbling as much as 23% in after-hours trading.

- Meta's business model makes it far more vulnerable to Apple's 2021 privacy changes, which the social networking giant has signaled for months will cause it trouble for the foreseeable future. On Wednesday, the company said the change could hurt sales "on the order of \$10 billion" in 2022.

**Behind the numbers:** Facebook's daily active users were lower than market expectations, dropping by approximately 1 million in Q4 2021 versus the previous quarter. Monthly active users (MAU) were 2.91 billion; the consensus market expectation was 2.95 billion, per StreetAccount. It was the slowest quarterly growth rate for MAU in at least three years.

**Reeling:** Meta CEO **Mark Zuckerberg** said he was encouraged by the company's progress in "important growth areas like **Reels**, commerce, and virtual reality."

- Curiously, CFO **Dave Wehner** noted "a shift of engagement within our apps towards video surfaces like Reels, which monetize at lower rates than Feed and Stories" as a headwind that could contribute to diminished profits for the foreseeable future—meaning that the company is touting its progress in an area that it concedes is less profitable.

Wehner also noted increased competition for consumers' time as a headwind the company will face in the future.

**Analyst take:** "It's clear that there are many big roadblocks ahead as Meta faces tough new competition for ad revenue such as TikTok, and as it contends with ongoing ad targeting and measurement challenges from Apple's iOS changes," says Insider Intelligence principal analyst **Debra Aho Williamson**. "While we expect Meta to ramp up testing ads and commerce within its metaverse offerings this year, those efforts will be highly experimental and not likely to drive much revenue in the near term."

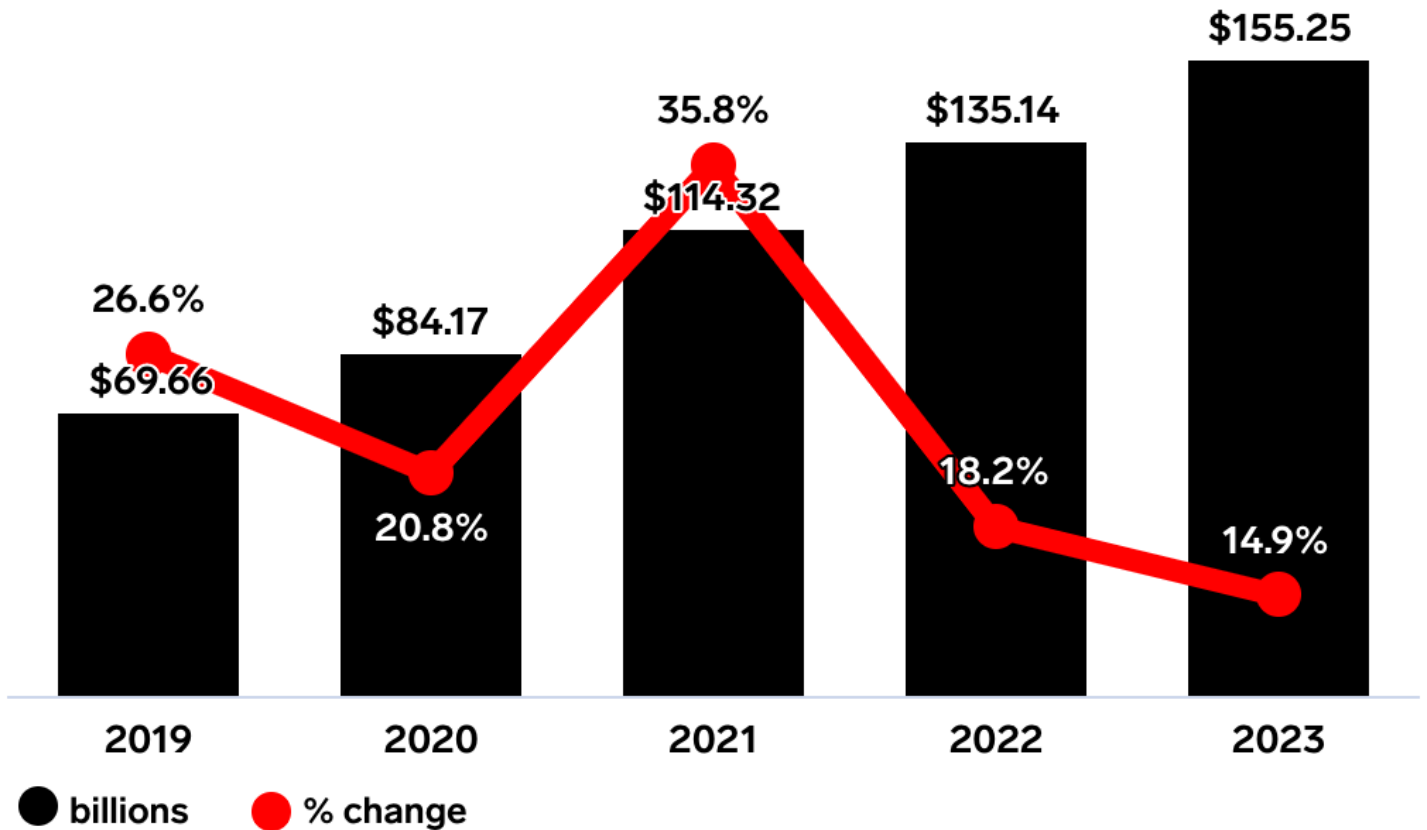
**The big takeaway:** Anyone expecting a total lack of turbulence from Meta in 2022 should prepare to be disappointed.

- The earnings miss demonstrates the vulnerability of its advertising-based business model, especially when compared with that of **Google**. The search giant's parent, Alphabet, **beat** its earnings expectations on Tuesday, largely on the heels of 35.7% growth in Q4 of search advertising revenues.

- The word “TikTok” was uttered just six times on the call, but the rival platform looms over Meta’s future revenues. If eyeballs continue to depart Facebook and Instagram, it puts increasing pressure on Meta to find a way to monetize its metaverse ambitions that much faster.

## Facebook Ad Revenues

Worldwide, 2019-2023



Source: eMarketer, October 2021

eMarketer | InsiderIntelligence.com