

Meta's watershed Q2 spells bad news for its ad business

Article

The news: Meta's watershed Q2 results spell trouble for the social media giant's future. The company posted its first ever year-over-year revenue decline this quarter, and its business faces existential challenges on every front.

- Second-quarter revenues totaled **\$28.15 billion**, down from \$29.07 billion in 2021.

- Net income was **\$6.68 billion**, a **36% decrease** from last year.
- Despite forecasts to the contrary, **daily and monthly active users** across its family of apps both **increased by 4%**.

Advertising is everything: Advertising lies at the core of Meta's business, and Q2's signs about its health aren't good.

- The devaluation of ads on Meta's platforms is accelerating thanks to limited tracking abilities and competitors with stronger growth. The average **price per ad** in Q2 **decreased 14% YoY** after decreasing 8% in Q1.
- Meta began the year with a warning that **Apple's AppTrackingTransparency** policy could cost the company as much as **\$10 billion** in revenues throughout 2022. Its efforts to develop a new tracking solution have been messy and damaged advertiser trust in the platform.
- To top things off, digital ad spending is going through a major downturn that CEO **Mark Zuckerberg** addressed in the company's Q3 guidance. "This outlook reflects a continuation of the weak advertising demand environment we experienced throughout the second quarter, which we believe is being driven by broader macroeconomic uncertainty," Zuckerberg wrote.

Analyst take: "The year-over-year drop in quarterly revenue signifies just how quickly Meta's business has deteriorated," said principal analyst **Debra Aho Williamson**. "Prior to these results, we had forecasted that Meta's worldwide ad revenue would increase 12.4% this year to nearly \$130 billion. Now, it's unlikely to reach that figure, and I expect that quarterly growth in Q3 and Q4 will almost certainly be slower than our previous expectations. The good news, if we can call it that, is that its competitors in digital advertising are also experiencing a slowdown."

Interest in Participating in the Metaverse Among Internet Users Worldwide, March 2022

% of respondents



Note: n=12,890 ages 16-64 in Brazil, China, France, Germany, Italy, India, Japan, the UK, and the US

Source: GWI as cited in company blog, May 3, 2022

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Nowhere to run: As if its ad outlook wasn't bad enough, Meta is also fighting off challenges from competitors and regulators that threaten its many ventures.

- A wave of unpopularity and political scandals has made Meta a target for regulators around the world trying to crack down on Big Tech. **Facebook's** relationship with publishers, advertising business, content management, and more have been the subject of regulation, fines, and investigations.
- Hours before earnings dropped, the **FTC** sued to prevent Meta from acquiring virtual reality company **Within**, accusing Meta of "buy[ing] market position rather than earning it on merit." Zuckerberg has said metaverse plans could take years to develop, and on Tuesday said it was increasing the price of its **Quest 2** headset.
- Facebook and **Instagram** are both struggling to retain younger users. Instagram's share of users under 25 will **shrink from 30.4%** in 2021 to **26.7%** by 2026. By comparison, **44% of US TikTok users** will be under 25. Instagram has pivoted hard to short-form video to combat that, but that's come at the cost of its cultural capital.
- The digital ad downturn, business challenges, and rising interest rates have also pushed Meta to implement a hiring freeze and pursue layoffs that could be as high as 10%, Insider reports. But at least that's not unique to Meta.

The big takeaway: Meta desperately needs to improve its numbers with young users and develop an advertising solution to reverse its fortunes. But that's no easy task for a company

plagued with scandal, regulatory challenges, and financial hits.