Facebook Research

BI Internet Media, Global Dashboard


Jitendra Waral
Team: Technology
BI Senior Industry Analyst


April Kim
Team: Technology
BI Associate Analyst

1. Facebook's $5.7 Billion Bet on Jio Is a Move Beyond Ads: React

Table of Contents

(Bloomberg Intelligence) -- RECENT EVENT REACTION: Facebook's investment of $5.7 billion in India's top telecom operator Reliance Jio highlights a broader bet on India’s online growth beyond ads. Jio has more than 388 million subscribers with reach in content, payments and e-commerce, all of which Facebook can scale up via its 380 million WhatsApp, Facebook or Instagram users in India. Plans to integrate Jio’s small businesses to enable shopping on WhatsApp shows an acceleration in e-commerce.

THESIS: Facebook will be the hardest-hit internet company in 2020 from the virus fallout as a sharp ads decline and small and medium business exposure can take growth down to low-single digits, while surging usage hits profit harder. Yet we believe exiting this uncertainty with a higher user base and new habits means diversification into new businesses and a 2021 ad rebound will make its growth emerge the strongest among peers. More than 60% of Facebook's sales are in the U.S., the U.K., Germany, Japan, France and Italy. Small and medium business make up the majority of Facebook's 7 million advertisers. Earnings in 1Q will likely reset growth expectations, creating room for longer-term sales outperformance as Facebook pushes into diversifying its business post-virus. (04/22/20)

Key Topics

Coronavirus Near-Term Risk

Ad Cuts Spare None; E-Commerce, Cloud Boom Amid Pandemic

Contributing Analysts **Vey-Sern Ling** (Technology)

Ad-driven internet companies are at the highest risk of sales disruption from the coronavirus fallout as businesses close, travel slumps and event cancellations mar demand. We anticipate a high-single-digit cut to 2020 sales expectations for Google, Facebook and Twitter, while policies to keep workers at home lift e-commerce, content and cloud revenue for Amazon.com, Tencent and EBay. (03/23/20)

2. Google, Facebook Most at Risk; Amazon, EBay Insulated

The impact on sales from the coronavirus will likely be felt the most by ad-driven names such as Google, Facebook, Twitter, Snap and Pinterest as small businesses lock down and reductions in travel and automotive purchases crimp ad spending. We see lower risks to e-commerce-focused Amazon and EBay, as shelter-in-place restrictions spur demand. Chinese internet companies saw double-digit drops in their sales expectations for the March quarter. As the virus fallout spreads, we believe sales expectations may come down by high-single digits for 2020 for the sector. Our scenario assumes most of the impact will be felt in 2Q, with the effects tapering by year-end.

Surging cloud utilization may also boost market-leader Amazon. The U.S., U.K., Germany, Japan, France and Italy account for the majority of internet revenue. (03/23/20)

U.S. Internet Revenue Growth Scenario

Company	2020 Sales Growth Consensus	2020 Sales Growth BI Growth Impact Scenario
Amazon	19.4%	19%
Google	17.9%	12%
Facebook	20.3%	12%
Snap	39.6%	27%
Pinterest	33.7%	23%
Twitter	15.2%	7%
Ebay	-3.7%	-2%

***Key assumptions
Double digit impact from March through June, high Single digital impact in 3Q, mid single digit impact in 4Q
Amazon assumptions do not factor in unforseen supply chain disruptions due to the virus

Source: Bloomberg Intelligence

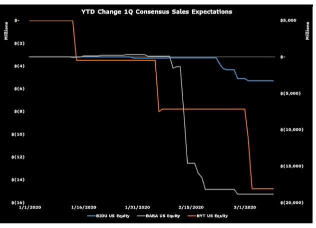
3. New York Times Fires Warning Shot

The New York Times' expectation of a 10% decline in digital-ad demand in 1Q, attributed to virus uncertainty, may be a harbinger for Google and Facebook's revenue in 2Q, after January and February were largely unaffected. Escalating concerns in the U.S. may lead to a pullback on advertising beyond the anticipated impact from travel ads, due to uncertainty in 2Q. Facebook and Google could experience a 10% drop in ad sales in March-May -- similar to what Chinese Internet companies expect in 1Q -- translating to a combined revenue hit of more than $5 billion. Retail is the largest sector for ads at 25% and any drop in demand will be reflected in ad sales, though, in our view, that isn't captured in current expectations.

The effect of reduced foot traffic on small-businesses' ad spending is difficult to estimate for 2Q. (03/11/20)

Current Consensus

Consensus 2Q Revenue Growth Expectations	
Amazon	20%
Google	17%
Facebook	21%
Twitter	12%
Snap	41%
YTD % Change in 1Q Revenue Expectations	
Baidu	-13%
Alibaba	-15%
New York Times	-3%

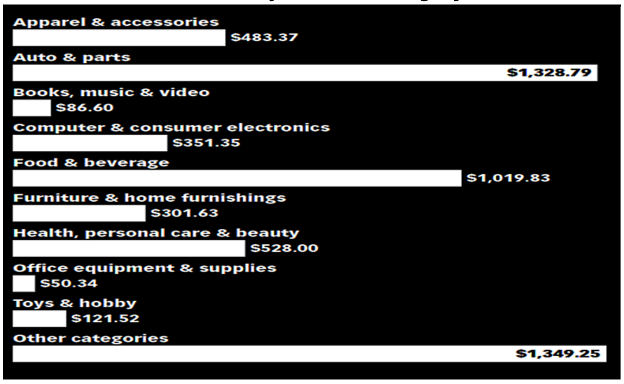


Source: Bloomberg

4. Travel Comprises Around 8% of U.S. Ad Dollars

Travel, a key vertical most directly impacted by the coronavirus, makes up about 8% of digital-ad sales. Large internet players like Google and Facebook tend to have a similar revenue exposure to these segments, given their industry-leading market share. If we assume travel ad budgets pause for two months in 2020, it would impact about 1% of Alphabet and Facebook's sales. Online travel agencies such as Expedia as well as some U.S. airlines have reduced sales expectations this year. (02/25/20)

U.S. Retail Sales by Product Category (2020)



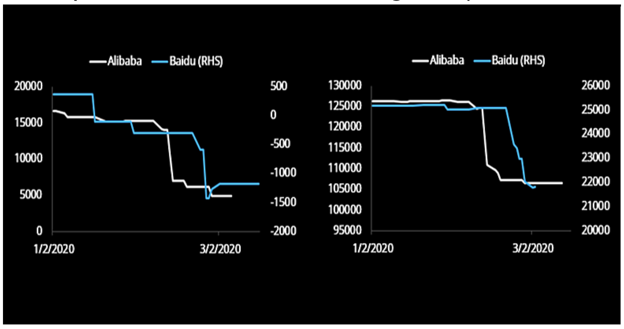
Source: eMarketer

5. Google, Facebook Profit at Greater Risk Than Revenue

As we anticipate revenue growth to slow to 10-12% for ad-driven companies from about 20% pre-virus, margins may shrink more on loss of operating leverage, incremental costs to support virus mitigation and to contain misinformation. Facebook had forecast total costs of $54-$59 billion for 2020, with consensus expecting a figure near the lower end. We believe actual expenses may be toward the high end of guidance, which risks operating-profit growth this year.

Google may face a similar challenge as over 80% of its business is driven by advertising. Content surging on internet platforms drives infrastructure costs, which without ad revenue can crimp margins. We expect a similar dynamic to play out on all ad-driven internet companies, including Pinterest, Snap and Twitter. (03/23/20)

1Q20 Profit (Left) & Revenue (Right) Expectations

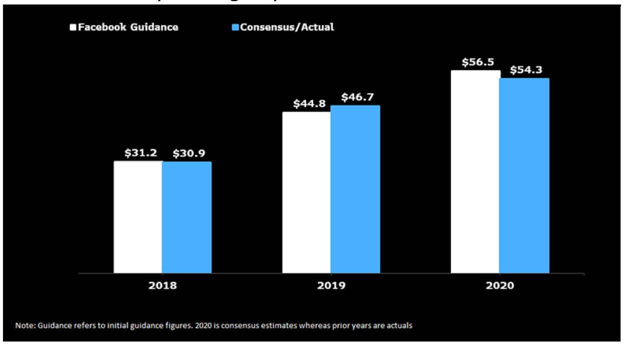


Source: Bloomberg Consensus

6. Spreading Misinformation Can Spur Spending

Big internet platforms have stepped up spending on privacy and security amid heightened regulatory pressure and the upcoming U.S. elections, and now fears of spreading misinformation about the coronavirus adds a facet of uncertainty. Facebook's guidance of $54-$59 billion in total costs for 2019, which is largely seen as aggressive, may see real spending come ahead of its plans if the outbreak worsens. We currently view this guidance as conservative and expect Facebook to end 2020 near the low end of the guidance, in-line with consensus of $54 billion. Twitter may also experience similar pressure if the outbreak worsens. Google and Facebook have reacted by increasing transparency by providing verified links to posts about the coronavirus (02/25/20)

Facebook Operating Expense Guidance vs. Consensus



Source: Bloomberg Intelligence

E-Commerce a $24 Billion Opportunity

Instagram's $24 Billion E-Commerce Battle vs. Amazon Starts Now

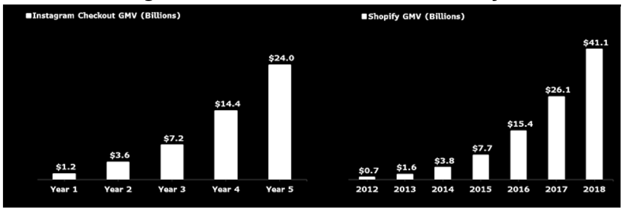
Facebook may generate more than $1 billion in e-commerce sales in 2020 via Instagram Checkout as it vies with Amazon for $24 billion in revenue through 2024. Since Facebook's consensus growth through 2022 is in-line with mobile ads, e-commerce will fuel better-than-expected sales. Over 800 million buyers on its platform boosts its odds of winning as does chasing big-name brands such as Nike. (01/14/20)

7. Instagram Checkout May See Rapid Adoption in 2020

Facebook's ability to scale new products by making it easier to advertise on its platform has fueled rapid adoption, as evidenced by Stories garnering over 2 million advertisers in a short period. Instagram Checkout may see similar hyper growth in the next three years with revenue from shoppable ads and commissions earned on sales via the platform. Facebook has four avenues to spur e-commerce: Checkout, Facebook Shop, Messenger and Marketplace, which house more than 800 million potential buyers.

The business model is likely to be closer to that of EBay than Amazon, where Facebook receives a cut of gross merchandise volume. Shopify's GMV has risen 75% compounded annually from 2015-2018. We believe Facebook can achieve similar, if not better, scaling as it primes the pump to fuel $1 billion in sales in the first year. (01/14/20)

Instagram Checkout GMV Scenario Analysis



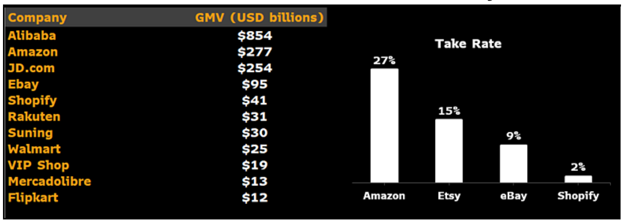
Source: Bloomberg Intelligence

8. Take-Rate Can Match EBay, Driving High Margin

Facebook could make money through e-commerce in two ways: shoppable ads and a transaction fee akin to Amazon and EBay's listing fee. Ebay charges about 9% of the gross merchandise volume to its sellers, while Shopify makes about 1.5%. Amazon's take-rate of 27% is industry leading but won't be comparable to Facebook, given the social media giant may not provide its own fulfillment and logistics network. Analyzing peers, we believe a transaction take-rate of 5-8% is justified for selling on Facebook properties. Since the take-rate model would be more in-line with EBay than Amazon, the margin profile of Facebook's e-commerce business should be more in-line with EBay.

Shoppable ad units will be the first step toward monetization. (01/14/20)

Facebook Take-Rate Can Match EBay



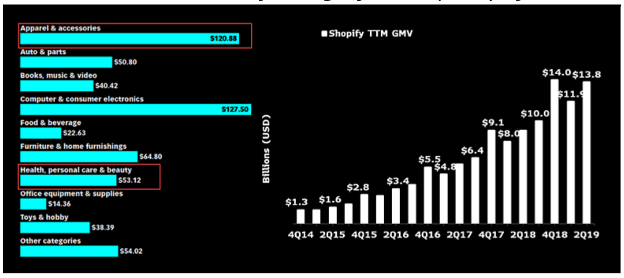
Source: Bloomberg Intelligence

9. Facebook Can Match Shopify's Lightning Growth With Checkout

Facebook's e-commerce efforts with Instagram Checkout, where brands can directly sell to more than 800 million potential buyers, should see rapid scaling mirroring Shopify. We expect gross merchandise volume to top $1 billion this year, or about 35 million users spending an average $30. Surveys on willingness of consumers to buy on social media and Checkout's simplicity suggests expectations can be beat. The market size that Facebook can chase is about $174 billion in the U.S., giving it enough room.

Facebook will be compensated in two ways: ad dollars associated with e-commerce sales and a take-rate for platform sales similar to what EBay charges. A combination of the two could yield 5-8% effective revenue per dollar of value sold on its platform longer term. GMV may top $24 billion by the fifth year since launch. (01/14/20)

E-Commerce Sales by Category (U.S.), Shopify GMV



Source: eMarketer, Company data

Instagram's Influencers Lift Sales

Influencer Influence Promises Bonanza for Instagram and Its Ilk

Nearly $10 billion of annual spending on internet influencers, one of the fastest growing social-media ad formats, could provide a bonanza to internet companies that snag associated marketing business. Facebook is the main beneficiary and driver of this trend, with its Instagram unit by far the preferred destination, followed by YouTube. (02/11/20)

10. What: Market Size to Cross $10 Billion Next Year

Companies may be pouring over $10 billion to influencer marketing next year, based on surveys that show brands devote 10-20% of their social media ad budget to influencers. Influencer-driven ads may be approaching a high-single digit contribution rate to Facebook's revenue -- assuming 70% market share for Facebook properties. Beauty brands drive an outsized portion of spending, while the global social media ad market excluding China crosses $80 billion this year. Estee Lauder disclosed spending 75% of its marketing budget on digital, using influencers as the main strategy.

Revenue impact from influencers may be even bigger relative to dedicated budget, prompting faster growth vs. other formats due to its higher ROI. Dissecting the direct impact may be difficult as brands incorporate multiple formats into a single campaign. (02/11/20)

Payout to Influencers (Rate per Instagram Post)

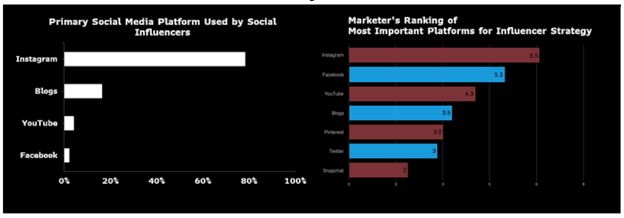
How Influencers Get Paid	
Methods	sponsored posts, commissions via affiliate partnerships, speaking engagements, in-store appearances, own merchandise, non-monetary payout of products/services
Influencer Tier by Followers	Price per Instagram Post
Microinfluencers (10-100k followers)	average $400, range $200-$4,000
Mid-tier influencers (100k-500k)	average $2,500, range $2,000-$10,000
Macroinfluencers (500k-1 million)	range $5,000-$25,000
Megainfluencers (1 million +)	range $10,000-$150,000
Celebrities	$250,000 by Kim Kardashian

Source: Mediakix

11. Where: Facebook the Biggest Beneficiary

Instagram is the ubiquitous leading destination for influencer marketing, with Stories a popular format, while YouTube is the preferred method for longer-term campaigns. Instagram Stories are likely popular as the format aligns well with brands' desire to foster authenticity via organic product placement. Studies indicate that influencer ads generate higher emotional intensity and memory encoding than TV and regular social media newsfeed ads, likely due to their interactive nature and a bond with influencers. Over a third of U.S. Instagram users have made a product purchase based on an influencer recommendation. Snapchat and Twitter are distant in ranking after Instagram, Facebook, YouTube, and blogs as preferred platforms for influencer marketing. (02/11/20)

Preferred Social Media by Influencers and Brands



Source: eMarketer, Linqia

Remains Advertisers' Pick for 2020

12. Facebook Big Favorite vs. Google, Amazon for Ad Dollars in 2020

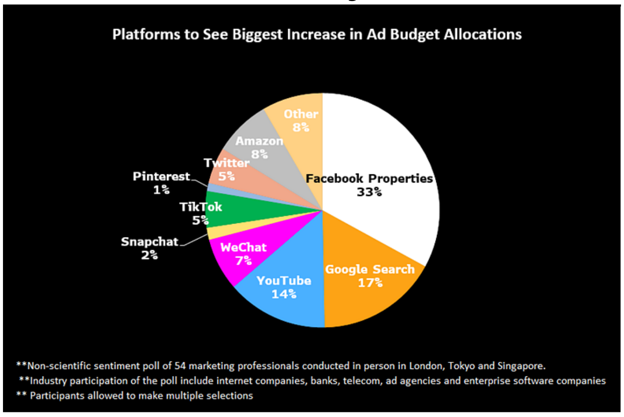
Facebook will stay the top candidate for advertiser spending in 2020, based on our informal poll of more than 50 marketing and strategy professionals at key Europe and Asia agencies, boosted by key global events and a 10-20% gain in mobile-ad budgets. Facebook, Google and Amazon.com are prominent for governments, banks and telecom and internet companies in London, Singapore and Olympics-host Japan. Cloud demand is robust, though rising competition could crimp Amazon Web Services' margin. Summer games ad spending should aid Twitter in 2H.

Payments will be pivotal to the growth of Asia’s internet companies and the rapid rise in mobile-wallet use there is spurring internet-company and bank tie-ups. Yet we believe that distinct spending habits in the region may not succeed for larger U.S. internet companies. (12/11/19)

13. Facebook Still Advertisers' Pick; Google Follows

Facebook remains the decisive beneficiary of an expected increase in ad-budget allocations next year. Of the 54 marketing professionals we surveyed in-person, 33% voted for Facebook properties as a platform where they expect to direct more spending, followed by Google and Amazon.com. Instagram continues to gain traction, while YouTube garners robust interest. Amazon's advertising division, likely the company's fastest-growing segment, will continue to advance in 2020 through its expanded offerings. TikTok and WeChat appear to be favored in Asia more than in Europe. Regulations were felt in 2019, but deemed insignificant to ad demand. (12/09/19)

Favored Advertising Platforms



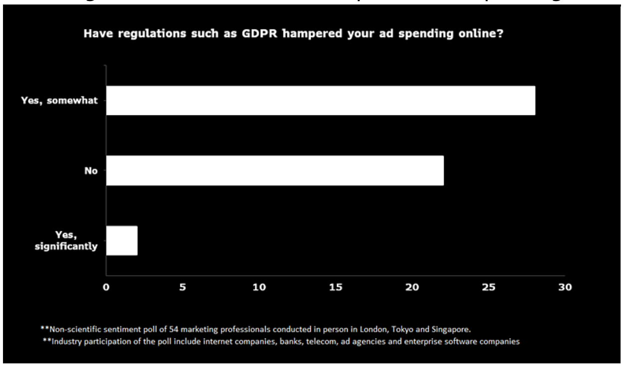
Source: Bloomberg Intelligence

14. Regulations Unlikely to Curb Ad Market

The enactment of data-protection laws, for example, has only been a slight impediment to marketers and advertisers, and shouldn't deter growth in digital ad placement and spending. Every $100 increase in online-ad spending drives $300 billion of industry sales, based on our analysis. More e-commerce should bring advertising dollars along, even with a tougher macroeconomic outlook. The 2020 U.S. presidential election may bring headline risk to Google and Facebook, yet the organic traffic increase should support fundamental growth in advertising.

Internet companies may have reduced long-term growth expectations too much for an increase in compliance costs and a slower product cycle, leaving room to beat targets. (12/09/19)

Regulations Have Limited Impact on Ad Spending



Source: Bloomberg Intelligence

Stories Growing Rapidly

Stories Lift Facebook's Sales as Diversification Aids Forecasts

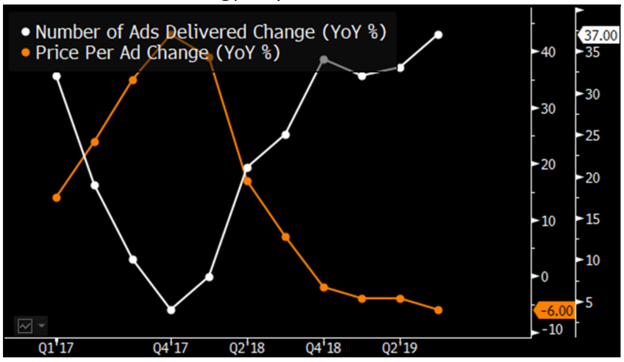
Facebook is set to cruise into 2020 with continued robust Stories adoption that may provide room to exceed consensus, as expectations and valuations remain tempered by macroeconomics and regulatory concerns. Fundamental growth remains intact and forecasts may rise, with revenue diversification driven by Instagram Checkout and monetization of messaging apps. (12/13/19)

15. 2019's Double-Edged Sword Turns to Spear in '20

As Facebook laps the transition of its ads inventory to the Stories format from News Feed, revenue growth will be focused on volume. Sales growth will also be buoyed by easier pricing comparisons, as 2019 bore the brunt of the steep price decline when the rapid growth of lower-priced Stories ads first started affecting the mix. We expect ad pricing will see stabilization in 2020 as impressions continue to increase, with tools developed for cross-format automatic ad placements proving to be effective.

Volume growth will also be aided by further adoption of the ad format across Messenger and WhatsApp, spurred by new features such as allowing customizable templates for different media. (12/13/19)

Ad Pricing, Impressions Growth (%)



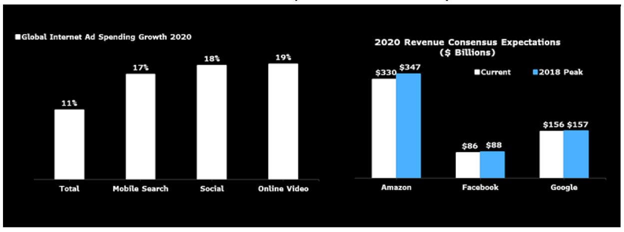
Source: Bloomberg Intelligence

16. Stories May Push Facebook Growth Past Market Pace

Facebook's market-share gains continue, albeit at lower-than-historical rates. Market share saw an average annual increase of 275 bps in 2016-18, yet this pace will slow, with eMarketer expecting a 140-bp expansion in 2020. Consensus has come down in-line with this, we believe that Facebook can handily meet these estimates next year. The company only needs to marginally outpace industry growth, with Gartner forecasting that global social-media ad spending will rise 18%, led by video ads.

An integrated service with greater ad inventory may enable upside to market-share gains for Facebook. Instagram has more than 1 billion monthly users, WhatsApp has more than 1.5 billion and Messenger over 1.3 billion. Advertisers on Facebook have shown a high retention rate. (12/13/19)

End-Market Forecast, Consensus Expectation



Source: Gartner, Bloomberg Intelligence

Regulatory Challenges Continue

Covid-19 Outlook: U.S. Antitrust

Contributing Analysts **Jennifer Rie** (Litigation) & **Sophia Isani** (Litigation)

Work disruptions from Covid-19 will slow the U.S. antitrust agencies' probes. M&A reviews at a deal's opening stages are difficult, if not impossible, to conduct remotely. Both agencies said more time will be needed. But collaborations between competitors aimed at fostering manufacture of critical supplies may be quickly approved and standards eased. (03/24/20)

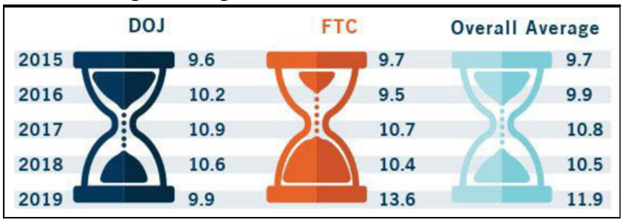
17. Timelines for Merger Reviews Will Be Extended

Contributing Analysts **Jennifer Rie** (Litigation) & **Sophia Isani** (Litigation)

Pending and new M&A reviews by both the U.S. Department of Justice and the FTC will slow as a result of disruptions caused by the coronavirus. Still, in our view, deals that are far along in the process are unlikely to face much delay, as was the case with the AbbVie-Allergan merger, which FTC staff conditionally approved on March 17. More recent deals may face delays even beyond what the agencies have projected. The DOJ has asked for an extra 30 days for deal reviews and the FTC has indicated that it's likely to seek timing modifications for some matters.

Before expected Covid-19 delays, the average timing in 2019 for most investigated deals from deal announcement to completion of the investigation was 11.9 months, according to data compiled by the law firm Dechert. (03/19/20)

Average Timing - U.S. Antitrust Review of M&A



Source: Dechert LLP

18. Big Tech Focus May Lose Priority

Contributing Analysts Jennifer Rie (Litigation)

U.S. antitrust agencies' focus on big tech companies - Amazon, Apple, Facebook and Google - may slip a little with the ongoing Covid-19 situation. While we expect the DOJ and FTC to continue their enforcement efforts in this sector, slowdowns are likely as personnel from both the agencies and companies are working remotely, out sick or helping someone who is. Further, Attorney General William Barr pledged DOJ vigilance on potential antitrust violators taking advantage of the Covid-19 crisis. This may temporarily take priority over investigations of past conduct by big tech companies. If any enforcement action was in preparation, there is a good chance it will be delayed until after the Covid-19 crisis has eased. (03/19/20)

Bloomberg News:

- U.S. Mergers Face Antitrust Delays Amid Virus Disruptions
- Coronavirus False Claims Task Force Urged at Justice Department

19. FTC Also Investigating Closed M&A

Contributing Analysts Jennifer Rie (Litigation) & Sophia Isani (Litigation)

Certain completed acquisitions by Amazon, Apple, Facebook, Google and Microsoft are also under greater scrutiny due to an FTC probe announced on Feb. 11. The inquiry is in addition to any FTC investigation of Amazon and/or Facebook for potential anticompetitive conduct. Information concerning 10 years worth of past M&A thatweren't filed under the Hart-Scott-Rodino Act (HSR) is sought. These are deals that fell under the HSR thresholds and didn't require any waiting period before closing. The probe may be a precursor to an enforcement action and/or efforts to unwind a past deal.

Section 6(b) of the FTC Act empowers the the agency to require companies to provide information about their business even where there is no suspicion of wrongdoing. (02/28/20)

News Release

"The Federal Trade Commission issued Special Orders to five large technology firms, requiring them to provide information about prior acquisitions not reported to the antitrust agencies under the Hart-Scott-Rodino (HSR) Act. The orders require Alphabet Inc. (including Google), Amazon.com, Inc., Apple Inc., Facebook, Inc., and Microsoft Corp. to provide information and documents on the terms, scope, structure, and purpose of transactions that each company consummated between Jan. 1, 2010 and Dec. 31, 2019."

Federal Trade Commission
FTC to Examine Past Acquisitions by Large Technology Companies, Feb. 11, 2020

Click to view entire news release

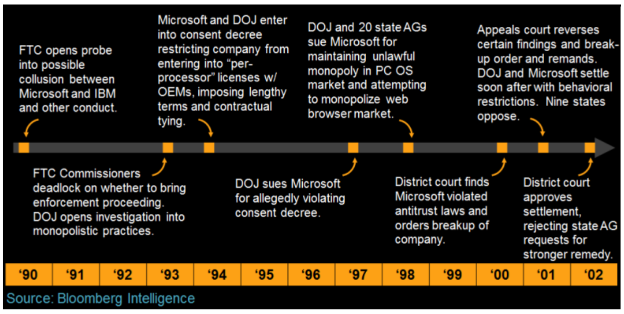
20. Breakup as Regulatory Remedy an Uphill Climb

Contributing Analysts **Jennifer Rie** (Litigation)

Even assuming that the DOJ or FTC could prove in court that Facebook, Google or another big tech company had unlawfully monopolized a market, it would be an uphill battle to win an order forcing a breakup. In the 1990s, after years of litigation, a court ruled that Microsoft had unlawfully maintained its operating-system monopoly by excluding competitors, based on strong and clear-cut evidence. Still, the company ultimately wasn't split. It was required to share application-programming interfaces with unaffiliated companies and adhere to other behavioral conditions. These less-drastic measures were considered sufficient to allow rivals to gain a foothold in the market.

Though the DOJ sought and won a court-ordered breakup, this was reversed on appeal. The DOJ and Microsoft ultimately settled, agreeing to behavioral remedies. (02/28/20)

U.S. v. Microsoft Timeline



Source: Bloomberg Intelligence

Financial Review

Earnings

21. Facebook Awaits Silver Lining of Diversification: 1Q Preview

Facebook's 1Q sales may be better than feared, as January and February ran ahead of expectations, while most of the Covid-19 impact came later. Growth rates near the end of March will be the key to gauge the severity of slowdown. The outlook for 2Q likely underestimates extended pauses among small and midsize businesses. User growth will likely beat expectations, as observed with Twitter and Pinterest. As this user engagement came with lower revenue, profit may see further downside. There is a silver lining for Facebook's ad woes: a potential to diversify into payments and e-commerce sooner, leveraging engagement and new habits.

Any signs of retooling as hiring at the social-media giants continue can bolster longer-term expectations. The IAB survey of advertisers called for a 30% reduction in spending in 2Q. (04/17/20)

Key Points:

- Facebook Has More Incentive to Accelerate Revenue Diversification Beyond Ads
- Advertiser Survey Calls for 30% Reduction to Spending in 2Q
- Instagram Checkout Remains Major Opportunity for Facebook
- Facebook Sales May Reach $17.3 Billion in 1Q, EPS $1.72, Based on Consensus

Additional Resources:

- Analyzer | BI »
- Earnings Calendar | EVTS »
- Company Outlook | BICO »

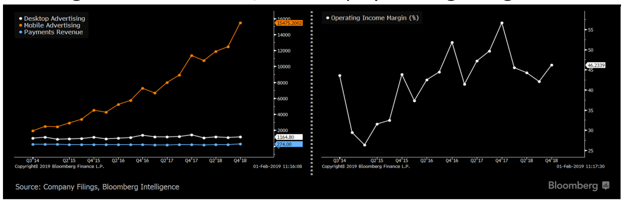
Financial Trends

22. Facebook's Privacy Focus May Weigh on Near-Term Revenue Growth

While Facebook's sales expectations for the year have dimmed as the company focuses on privacy features, with reduced ad targeting a more serious concern this year, we believe revenue growth may reaccelerate in 2H. Such gains could be helped by expansion in non-advertising businesses, with e-commerce, payments and WhatsApp monetization the near-term opportunities.

Facebook reiterated its 2020 expense guidance of $54-$59 billion, which may be a conservative view, to preempt risks related to U.S. election spending. Management seeks to increase head count and boost spending on long-term investments. Given that this remains under the company’s control, near-term margin headwinds should be manageable, barring significant regulatory changes and adjusting for an FTC fine. (02/04/20)

Segment Revenue ($ Million), Operating Margin (%)



To contact the analyst for this research:
Jitendra Waral at jwaral@bloomberg.net