Meta Platforms, Inc. (META)
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Luke Roberts: Media & Telecom Sector Head

Meta Platforms, Zuckerberg's company. Since the beginning of Facebook, it has been Zuckerberg's vision that has led the company forward. From expanding from the small social media platform, to acquisitions and an IPO, it has gone along with Zuckerberg's plan. Even as the company has experienced downturns, Zuckerberg's majority ownership has not wavered and will remain within the company for the future. The future of Meta as a company lies where Zuckerberg sees value.

The foundation of Meta was based on a collection of social media apps, developed in-house and through acquisitions, Facebook has expanded its social media to a marketplace reaching 3+ Billion people worldwide. It currently provides 97%+ of Meta's revenue and growing slightly in users in Asia Pacific and the Rest of the World, while stagnating in US & Canada and Europe. A segment that's based on its advertising segment, it provides a bastion of safety only to be disrupted by the platforms it's used through. Apple, in its cookies tracking policies introduced in 2021, is estimated[1]to cost overall social media companies $40 billion in 2022-23. This initially caused a drop in Meta's earnings foreshadowed by Snapchat's drop in advertising rates, though currently, Meta projects that it only impacts a small part of its revenue[2]. Growth is projected to increase towards the latter half of this year with Midterms quickly approaching and budgets doubling relative to 2018's midterm elections[3]. It remains to be seen how effectively Meta overturns these regulations through its platforms, but the advertising space overall is growing within the near term.

It's not all stagnant for Meta in its existing operations. Reels, introduced as a competitor to ByteDance's TikTok, has grown as a viable competitor to advertise to the younger demographic that is already present on Instagram, which are the most-desired audience to advertisers. Meta has also voluntarily decided to advertise less on the platform than it projects it can, leaving more than $500 million on the table to fuel its growth more organically[4]. After growing a foundational user base through Reels to compete with TikTok, Meta will be able to monetize it to create another foundational step in its stable family of apps, a synergy that is not leaving anytime soon.

To touch on the expansion into the Metaverse, it is Meta's long-term growth plan. Categorized as "Reality Labs" in earnings, short term expansion has been minor with Quest 2 sales being lower than expected. Expansion into this space has been one of the main cost drivers of Meta, with overall company headcount increasing 28% year-over-year and operating losses for Reality Labs growing significantly in 2023, with growing income in the long run[4]. Meta's expansion into the Metaverse is still in its very early stages with development needed in the next few years to build the foundation technology on the hardware and software side, profits planned to start near 2025, with a goal of significant contribution ot operating income being around 2030[4]. While expenditures will be high for the next few years, it is what's needed for Meta to continue to grow as a company into this new space and introduce a new segment to their profit.

Throughout this whole report, a theme of increasing expenditures was common due to increased company expansion, increased R&D, and further capital expenditures. Expenses made up 80% of Revenue last quarter with expenditures increasing across the board[5]. Capital Expenditures are expected to continue to grow into 2023 from $32-33 billion to $34-39 billion, but likely on the higher side as development into Reality Labs is needed with the next generation of Quest headsets planned for the end of 2023[4]. Full-year expenditures are expected to grow into 2023 from $85-87 billion to $96-101 billion. This expansion across the board has seen operating margins sharply decline 16% year-over-year (to 20%)[6]. Margins are likely to continue to slightly decline in the coming years as more capital is used in expanding Reality Labs, while Family of Apps grows slightly in revenue. Overall, over the next few years, expenditures will continue to be higher due to an increased headcount needed for the expansion of Reality Labs, which will be offset in the future once significant development is made into the Metaverse.

References

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