

Hyperion Asset Management

Company Profile

Meta Platforms Inc. Class A

Main Business Activities

Meta Platforms Inc. (Meta, previously Facebook, Inc.) owns global social network platforms where 2.9 billion users connect with friends, family and companies via a mobile device or desktop. Meta offers a free online environment for consumers to engage with friends, family, groups and communities via chat, voice and video call. Meta monetises its platforms using an advertising model whereby advertisers pay for the ability to reach consumers through advertisements. Meta offers the broadest reach for advertisers in terms of social media platforms.

Meta has over 10 million active advertisers despite having approximately 200 million small to medium businesses across all of their platform (in 2020). Meta's core platforms are Facebook and Instagram which make up the majority of Meta's revenues. Meta also owns WhatsApp and Messenger, which remain undermonetised at this point in time. WhatsApp is a messaging service with over 1.5 billion users who message friends and share photos and videos, in a small group or on a one-on-one basis. Messenger is a messaging service within Facebook with less than 1 billion users. Oculus is the platform for Meta's virtual reality initiative.

Key Value Proposition to Customers

The value proposition for consumers is providing a free platform where people can communicate and engage with friends, family and their community. Meta continually invests in the consumer value proposition which increases the utility for users. Recent products include Facebook Watch, Reels and Marketplace as well as the ability to purchase within Meta's platforms with Facebook Shops and Instagram checkout, streamlining online transactions.

The value proposition to advertisers is offering a large, engaged audience with innovative ad products and better targeting capabilities than traditional media. Ads that are more targeted become useful and relevant rather than intrusive and annoying. The more ads that can be matched to the right consumer, the greater the return on investment, which also increases the price paid to Meta. Meta's platforms offer advertisers a scalable ad platform which has the capacity to consume a large proportion of advertisers' budgets without large declines in return on investment. Advertising is crucial for the ability of businesses to communicate their product with consumers and drive their sales.

Meta's platforms provide a strong value proposition to small businesses, allowing them to compete on a level playing field with large corporations. With 35% of small businesses before the COVID-19 pandemic having no web presence, Meta provides a compelling and easy to use solution for these businesses to increase their digital presence.

Across Facebook, Instagram, WhatsApp or Messenger there are 2.9 billion people that use at least one app on a monthly basis. Hyperion estimate that the time spent on Facebook is over an hour each day (this was reported to be 50 minutes in FY16).

Sustainable Competitive Advantages and Outlook

Meta's sustainable competitive advantage is based on its network effect where the number and engagement of users feed on themselves. Hyperion believe people will only become a user and engage if their friends, family and community groups are doing likewise. It is very difficult for new social media platforms to emerge due to this network effect.

From an advertising perspective, businesses want to advertise on platforms that have the most number of engaged users and where there is high targeting ability and strong return on investment. A high return on investment creates a positive feedback loop whereby advertisers increase their marketing budget as they can see the tangible evidence on their sales. Meta's ad technology and measurement tools also make the advertising process efficient and aims to maximise return on investment by showing the right ad to the right consumer.

Meta, through Facebook and Instagram, has a market share in social media advertising of approximately 90%. Twitter and Snapchat are the company's main competitors in social media however Hyperion believe their proposition in terms of consumer reach, engagement, scalability and return on investment are inferior to Meta's platforms.

Overall Company Growth Options

Meta retains strong organic sales growth opportunities. The digital advertising addressable market as a whole will continue to grow at double digit rates over the near term as the structural shift from traditional media to digital continues to evolve. Hyperion also believe that the advertising market as a whole will expand as e-commerce penetration continues to increase and accordingly as businesses reallocate costs to drive online sales. As e-commerce penetration expands, we believe businesses are likely to restructure the size of their physical store footprints, which will free up costs associated with rent and labour that will be redirected into online channels.

To date, most of the revenue growth has come from the monetisation of "the feed" (primarily on Facebook and Instagram). A "feed" is software that provides an updated stream of the new content posted to a social medium for users. This has been driven by both ad load and pricing growth. Ad load on the feed is fairly well penetrated and going forward, Hyperion believe pricing growth is likely to be achieved on Facebook's News Feed with ad load growth coming from earlier stage ad formats such as Reels, Marketplace and Groups. Over the medium to longer term, the majority of Facebook's ad revenue growth is expected to come from increased pricing on higher demand for digital ads. Meta have a large opportunity to increase the number of advertisers, with 10 million advertisers using Facebook's ad services compared to the 200 million businesses that have profiles on Facebook.

Meta is increasingly moving to monetising e-commerce, first by commencing Instagram Checkout in 2019 and then the launch of Facebook Shops in May 2020. Facebook Shops will allow businesses to have a shop on both Facebook and Instagram and allow consumers to purchase on the platform, rather than being redirected to merchants' websites. This should further lead to the monetisation of Messenger and Whatsapp with communication between consumers and merchants both following and during a sale. Small businesses are expected to be a large opportunity for Facebook Shops and Instagram Checkout given the 200 million businesses that already use Meta's products. Facebook Shops and Instagram Checkout will allow these small businesses to increasingly monetise online with a low take rate relative to other marketplaces (such as Amazon and eBay).

Other growth options for Meta come from monetising Whatsapp and Messenger, which could potentially be monetised directly, or indirectly through communications between businesses and consumers on transactions made on Meta's platforms. Meta are investing heavily in the Metaverse, which they believe will become the next computing platform. While early stage, Meta will be in a strong position to take part in what could be an addressable market that is significantly bigger than their addressable market today.

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