

Internet/e-Commerce

Ben Legg Advertising Call Takeaways

Industry Overview

AI, improving macro and sentiment drive better 4Q

We hosted Mr. Ben Legg, former CEO of Ad Parlor, to discuss industry and platform specific trends in the Online media sector. Our top takeaways from the call include: 1) 4Q'23 digital ad spending had slightly higher 4Q acceleration vs initial expectations, 2) Early 1Q'24 ad spend trend better than expected with advertisers committing to spend earlier in the quarter, 3) Reels, messaging, Shops in eCommerce and AI integrations continue to be drivers of growth at Meta, 4) New AI features (auto video and copy creation) driving incremental ad spend and higher ROI at Google, 5) YouTube benefited from Hollywood strike and ad spend shift from linear TV, 6) Amazon '24 ad ramp outlook positive given new contribution from ads in Prime Video (Amazon's user data and advertiser relationships will aid '24 ramp), 7) Pinterest decelerated in 4Q with Mr. Legg's advertisers already highly engaged on platform, but constructive on Amazon partnership opportunity to materially increase ad revenues over 3-4 years (potential for 50% increase in revenues from higher ad loads), 8) Snap accelerated in 4Q and Amazon deal will be a positive '24 tailwind (with potential to double CPMs on some eCommerce ads), and 9) Google privacy changes an industry risk but less disruptive vs. IDFA.

Early 1Q ad spend trends encouraging

Mr. Legg noted that 4Q'23 ad spending at most platforms was better than expected and contributed to slightly higher acceleration (~1pts higher) vs initial expectations. For 4Q, Mr. Legg indicated ad spend for his advertisers (\$700mn annually with Meta ~50%) to accelerate 5pts q/q, with biggest acceleration expected at YouTube 9pts (vs 7pts in 3Q), followed by Meta 5pts (vs 9pts in 3Q), Snap 3pts (same as in 3Q), and Search 2pts (vs 4pts in 3Q) while Pinterest decelerated 2pts (vs 3pts acceleration in 3Q). Mr. Legg also noted that 1Q ad spending was trending better than expected as clients have been more proactive in deploying budgets in January compared to hesitancy & delays last year. He also noted that if advertiser sentiment and macro conditions improve, SMB advertisers are expected to scale ad spend on smaller platforms through the year.

AI features driving higher ROI & spend at Meta and Google

Mr. Legg noted that new AI features such as auto creation of copy writing and advertising videos by Google and Meta are driving higher ROI and opening up new platforms for SMB advertisers, driving incremental ad spend. For Search, Mr. Legg noted that ads in SGE (Search Generative Experience) could be a growth driver for Alphabet in 2024/25. He highlighted that the SGE provides a more intuitive way for users to refine their search results, and early adopters indicate that users who engage in SGE searches can have higher conversion rates. For Meta, he noted that Reels, Click-to-messaging, Shops in eCommerce and AI integrations continue to be major driver of growth, and auto creation of video advertising could open Reels to more advertisers in 2024. For 4Q, he estimated a 5-6pts ad revenue growth tailwind from Reels, 3-4pts from messaging, 1-2pts from Shops in eCommerce.

Continued on next page.....

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ROI: Return on Investment

Decel: Deceleration

Accel: Acceleration

CPM: Cost per mille

AI/ML: Artificial Intelligence/Machine Learning

IDFA: Identifier for Advertisers

SGE: Search Generative Experience

IDFA: Identifier for Advertisers

CPM: Cost per mille

SMB: Small and Medium Businesses

DR: Direct Response

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Google privacy changes likely not as disruptive as IDFA

Mr. Legg indicated that Google privacy changes could be a minor headwind (~1pt) for the industry but likely not be as disruptive as Apple's IDFA changes (~3pt headwind est., but possibly up to 5pts). He highlighted that post-IDFA, advertisers and ad platforms are better prepared with reliance on first-party data and alternative targeting/measurement solutions. Furthermore, he pointed that Google's approach to privacy changes will likely be advertiser friendly as the company has vested interest in nurturing the ad ecosystem. For Chinese advertiser ad spend risk, Mr. Legg highlighted that his dataset does not have any China-based ad spend but noted that the percentage of revenue for Meta from his eCommerce advertisers has significantly increased in the last few years, likely aided by AI capabilities (so Chinese advertiser spend not crowding out eCommerce spend).

Prefer Meta in large-cap and Pinterest in mid-cap

In 2024, among large caps, we prefer Meta in the group for the ongoing Reels monetization cycle, along with: 1) solid overall usage trends around video and first year of net positive Reels monetization, 2) under-appreciated AI capabilities (that are driving usage and ad spend), and 3) ramping monetization of messaging assets. For mid-caps, we prefer, Pinterest given: 1) Potential for above industry growth (and acceleration) in 1H'24 aided by ramp of Amazon deal, new AI integrations and growing advertiser adoption of company's DR solutions, 2) potential for home furnishings category to rebound on lower interest rates and easy comps, 3) Expense discipline with potential for further margin/EBITDA upside.

Exhibit 1: Stocks mentioned

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BofA Ticker	Bloomberg ticker	Company name	Price	Rating
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GOOG	GOOG US	Alphabet C	US\$ 140.53	B-1-9
META	META US	Meta Platforms	US\$ 358.66	C-1-9
PINS	PINS US	Pinterest	US\$ 37.38	C-1-9

Source: BofA Global Research

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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