

## Internet/e-Commerce

## TikTok bill passes House, on to Senate

## Industry Overview

## TikTok legislation passes in bipartisan vote

The House of Representatives has passed a bill that could potentially ban or force a sale of TikTok US operations. The vote was 352 in favor and 65 opposed, suggesting broad bipartisan support. The 12-page bill aims to "protect the national security of the US from the threat posed by foreign adversary-controlled applications" such as TikTok. If signed into law, the legislation would make it illegal to distribute apps developed by ByteDance, its subsidiaries and other firms "controlled by a foreign adversary," unless the company divests the app within 180 days. As the next step, the bill will go to Republican controlled Senate for a vote where, according to press reports, it faces an uncertain future. Senator John Cornyn said Senate is unlikely to accept the bill as is and called for an open amendment process to make changes. If the bill does get through Congress, President Biden has indicated that he will sign it. Snap was up marginally on the House vote news (+1%) while Meta was down (-1%), vs NASDAQ down 1%, as press reports suggested potential difficulty passing in the Senate.

## TikTok intensifies lobbying &amp; urges users to call Congress

TikTok has launched an intensive lobbying effort to thwart the bill, arguing that the legislation infringes upon the free speech rights of its 170mn US users and will negatively impact SMBs dependent on the platform. TikTok is also leveraging its vast network of users & creator with notification campaigns, urging them to call Congress to stop the bill. Per reports, the company is also planning to an extensive legal challenge before it considers any kind of divestment. For a divestiture, press reports suggest ByteDance may need approval by the Chinese government (given export of technology), and the government said last year that it would firmly oppose a forced sale, so there is a chance bill passage would lead to a TikTok exit from US.

## TikTok exit best sector scenario, many potential outcomes

We see three most likely scenarios from here: **Scenario 1) Bill passes and TikTok finds a US buyer.** We would expect a disruption in TikTok operations in 2024 (a positive), but a sale could be medium-term negative for US Online media sector if a competent US owner has a perceived ability to attract more advertisers. Sentiment for the US Online media sector could depend on the perceived ability of a TikTok buyer to access to TikTok's algorithms, maintain industry leading time spent share and attract US advertisers to the platform. **Scenario 2) Bill passes and TikTok leaves US.** There are likely to be multiple legal challenges before TikTok leaves the US, but we see this as an unambiguous positive for US online media sector, with Snap, Meta, Google's YouTube and Pinterest all potential beneficiaries (in ranked order). We think Snap has biggest audience demographic overlap with TikTok, while Meta's apps would see biggest usage boost in minutes. **Scenario 3) Bill stalls in the Senate:** The bill could be reintroduced with some changes, but it could be months before any material action is taken on the issue. Banning or forcing the sale of TikTok could be seen as a win for President Biden and Republicans might stall the bill though the elections. In this scenario, we see a minor potential tailwind for Online media sector (especially Meta & Snap) given that platform uncertainty and bad press could deter some advertisers from spending on TikTok.

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Timestamp: 14 March 2024 07:00AM EDT

14 March 2024

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## Glossary

DAU: Daily Active User

DR: Direct Response

FB: Facebook

Sen.: Senator

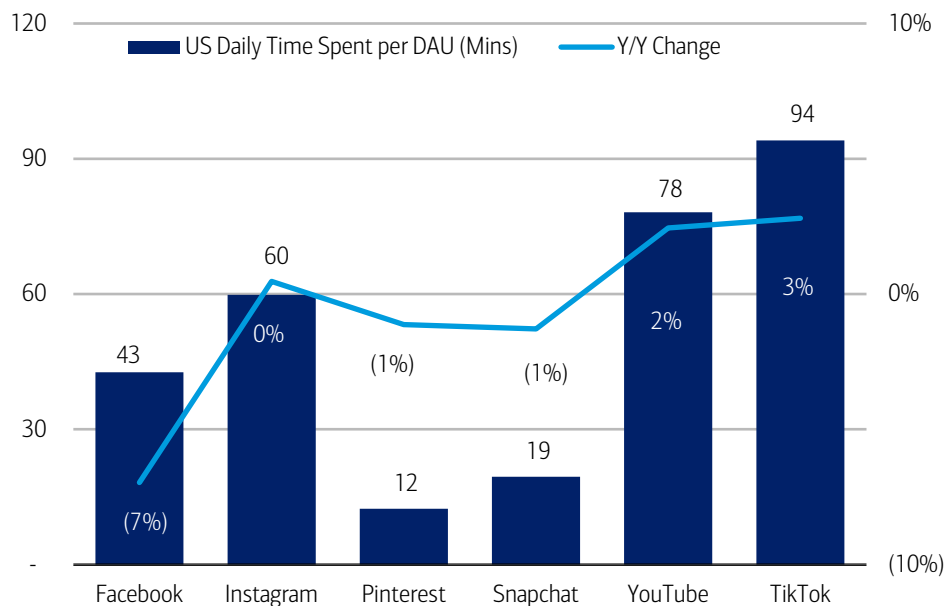
SMB: Small and medium businesses

TT: TikTok

# TikTok Time Spent

## Exhibit 1: US Average Daily Time Spent per DAU Estimates (Minutes) - Feb'24

Per Sensor Tower, TikTok had the highest US average daily time per active user (~94 mins).



**Source:** Sensor Tower

**Note:** Daily time spent per DAU calculated using Sensor Tower total time spent in a month estimates and monthly average DAUs estimates.

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