January 10, 2025

Ralph Schackart, CFA +1 312 364 8753
rschackart@williamblair.com

Mary Donaldson +1 312 364 5005
mdonaldson@williamblair.com

Jack Brenczewski +1 312 364 5321
jbrenczewski@williamblair.com

Internet and Digital Media

Digital Advertising Buyer Highlights Improving Macro Sentiment, GenAI Advancements, and an Update on Netflix Ads

Overview. In early January 2025, we spoke with an advertising industry participant that monitors $800 million in annual spend across roughly 200 companies on all major platforms and tracks data from Canada, the U.K., and the U.S. Of the total spend managed by this industry participant, roughly 50% is allocated to Meta. The advertising participant shared thoughts on the current macro environment for digital advertising, the impact of GenAI advancements, and an update on Netflix's ad-supported tier. Key takeaways from our discussion are below.

Key Takeaways:

1. **Digital advertising macro environment improves further following recent rate cuts.**
2. **GenAI improvements intraquarter are leading to improving performance and there could be a big "unlock" with future Meta GenAI chatbots.**
3. **Google's AI Overview ads gaining momentum.**
4. **Netflix and Reddit improving monetization with expanding budgets.**

A more detailed write-up of our key takeaways begins on the next page.

1. **Macroenvironment improving following fears of a downturn late last year.** When we last spoke with the advertising industry participant in September, the participant pointed to a stabilizing macroeconomic environment. Since then, the participant has called out improving sentiment among chief marketing officers (CMOs) following the Federal Reserve's latest rate cuts. This participant's original fourth-quarter digital ad budget was estimated at 20% year-over-year growth, but it grew 23% year-over-year due to stronger-than-anticipated performance. The participant noted they generally do not have three points of extra spend in a quarter. In terms of verticals, consumer package goods (CPGs) budgets improved significantly during the fourth quarter of 2024 and specifically on Meta. However, leisure, bars and restaurants, dating apps, and concerts remain weaker verticals for advertisers. The participant noted some "jitters" in early 2025 by advertisers regarding potential trade wars and how that might impact sales, but overall said the macro environment remains very healthy.
2. **GenAI improvements driving increased digital advertising performance.** Our participant noted that both Meta and Google had increased advertising performance during the quarter, driven in part by GenAI improvements. More specifically, Meta is allowing advertisers to integrate their customer relationship management (CRM) systems into its platform and is seeing improving advertising performance as a result. Google is also improving its GenAI products due to a few factors noted below.
    a. **Meta's new functionality allowing advertisers to integrate CRM systems into Meta's ad platform is scaling.** According to this industry participant, Meta is the only scaled digital advertising platform that is allowing CRM integration into its digital advertising GenAI product. The CRM system is integrated 24 hours a day, 7 days a week. This is making the ads dynamic and allowing them to respond to change instantaneously. In theory, GenAI could create hundreds or thousands of permutations of ads per person. About 90% of our participant's long-tail advertisers have integrated their CRM systems and about 50% of the large advertisers. The participant estimates 100% of long-tail advertisers will be integrated by the end of 2025 and about 80% of the large customers. The participant estimates the CRM integration added about two points of tailwind to Meta's growth in the fourth quarter of 2024, but each month it is improving. The participant also estimates it could add about three to four points of growth tailwinds in the first quarter of 2025 due to rapid GenAI improvements. Moreover, the CRM integration is identifying offline sales in ways it could not before. In other words, if a consumer sees an ad on Meta and purchases it in a physical store, with that CRM information Meta can track it and "claim" that sale. This will likely lead to improving return on ad spend (ROAS) for Meta, and in turn, its advertisers. Over time, the ad participant believes this may be a "huge tailwind" for growth. *The participant estimates that CRM and GenAI integration will scale significantly over the next five years and can lead to at least 50%-100% improvements in ad pricing (CPMs),* due to the robust nature of GenAI conversion and targeting.
        i. **Meta business messaging poised for significant acceleration.** This participant noted that WhatsApp for business was renamed Meta business messaging. This is **not** a GenAI product currently. However, given broader adoption, its client budgets for this product increased to 3.2% (across all clients) in the fourth quarter of 2024, up from 0.9% a year ago. This is incremental spend and not cannibalizing other ad budgets. It believes this product could account for 6% to 10% of its total client budget spend in the fourth quarter of 2025, which if true is a significant ramp-up. Moreover, during September 2024, Meta raised prices by 25%. Our ad participant's clients (mainly in the U.S.) are now paying about $0.025 for a conversation with a brand over a 24-hour period and no clients pushed back on the pricing. The ad participant believes Meta will raise prices again in 2025 by **at least 25%** on this product.
        ii. **GenAI intelligent business messaging bots in "alpha" testing in English-speaking countries.** This participant knows of about 10 clients that are testing an intelligent GenAI chatbot on WhatsApp in English-speaking countries. This product is also leveraging the CRM data integration. It is currently an "alpha" test and not widely available across WhatsApp, according to this participant. The "beta" launch, which will likely be self-serve, is estimated to begin in the second or third quarter of 2025. Most of Meta's beta launches last around three months currently, but given the scale of this new product, it could take six months, according to this participant. This GenAI messaging chatbot is designed to supplement and/or replace call centers and evolve into sales agents. The participant is very bullish on this opportunity based on performance feedback from clients testing the product.
    b. **Google's GenAI products driving more clicks and improving performance.** This participant was very positive about Google's AI advancements since last quarter. Overall, GenAI is gaining broader adoption and providing better results.
        i. **Specific GenAI product enhancements.** One Google GenAI feature, called automated "copy," which allows advertisers to leverage Google's GenAI products to write product descriptions using terms that are most searched on, is scaling and has improved significantly since last quarter. This is leading to more clicks for this participant's advertiser. Second, AI overviews started showing more ads for search. Google is now rolling this out for commercial queries. According to this participant, it is showing one ad in AI overview, for their clients, and this ad placement slot's click-through-rate (CTR) has increased "significantly." This is making advertisers more aggressive when bidding for the only advertisement in AI overviews. It is not sure what happens longer term to the historical top three (or so) search slots. However, it is confident there will be an overall increase in CPM pricing for this top AI ad position. Moreover, it believes that if this format continues, it will likely create a "more intensified bidding war" for this top slot.

   ii. **Performance ads with video.** Google is seeing strong momentum with small and midsize businesses (SMBs) leveraging GenAI to create video performance advertisements. It is a trend we have written about previously, but the new update is that QR codes ads within YouTube are doing very well. This is converting YouTube into a performance platform, according to this participant, given the strong performance of the new QR code/video ad-format. The participant believes there is a big tailwind for this ad product going forward and thinks CPMs have a significant opportunity to increase at least 50%, with advertisers perhaps being willing to pay a $1 conversion up-charge in addition to a $25 CPM (current pricing).

3. **Updates on Meta budget expectations.** Overall budget expectations in fourth quarter 2024 exceeded this participant's original plan. As a result, this participant is raising its Meta budget forecasts for 2025. **Meta budgets are expected to increase 24%, 19%, 23%, and 26% from fourth quarter 2024 through third quarter 2025, respectively. The participant revised its fourth quarter 2024 budget up 400 basis points** following increased performance from CRM integrations and revised up its overall 2025 budget by about 400 to 500 basis points due to improving CRM performance. **For 2025, its Meta budget is preliminarily forecast to increase about low to mid-20%,** depending on how big the potential CRM integration tailwinds become. While its 2025 Meta budget increase is well above the Street's roughly 14% advertising growth forecast, it is worth noting this participant is much smaller than overall Meta spend and serves as a proxy for overall trends, in our view.

4. **Updates on Google budget expectations.** Google search is expected to increase 20%, 17%, 19%, and 19% from the fourth quarter 2024 through the third quarter of 2025, respectively. The ad participant recently revised its Google search budgets upwards between 200 and 300 basis points each quarter due to GenAI improvements in copy, AI overviews, and broader search improvements. YouTube is expected to increase 16%, 14%, 18%, and 21% from fourth quarter 2024 through the third quarter of 2025, respectively. Despite continued competition from Amazon and Netflix, the YouTube ad format changes are attracting more budgets to the platform for this participant's client.

5. **Audiences that were previously under-monetized are improving their products.** Our industry participant highlighted both Netflix and Reddit as previously under-monetized platforms that are gaining momentum. It significantly revised up its budgets for both Netflix and Reddit. Entering fourth quarter 2024, it forecast a 61% year-over-year increase for Reddit spend, but total spend increased 85% year-over-year (off a low base). The main drivers for this improvement were new adoption from advertisers and performance ads. Reddit's implementation of performance ads allows for advertisers to make faster revisions and increases ad spend. As a result, the ad participant has allocated about 52% of its Reddit spend to performance ads, compared to 19% last year. Netflix was projected to grow 51% in the fourth quarter of 2024, but actual budget growth totaled 60%. The budget upside was a result of the changes to auction-based pricing Netflix implemented in August 2024, which decreased CPMs from $40 to $22, effectively spurring robust demand. In addition, it has become even easier for midsize advertisers to use Netflix's platform with both Google and The Trade Desk supplying their ads and simplifying the process. Going forward, our ad participant believes that Netflix unlocking performance ads can be a long-term tailwind.

   a. **Reddit budget expectations.** Our participant expects Reddit budgets to increase 85%, 76%, 67%, and 65% from fourth quarter 2024 through third quarter 2025, respectively.

   b. **Netflix budget expectations.** Our participant expects its Netflix budget to grow 60%, 76%, 79%, and 74% from fourth quarter 2024 through third quarter 2025, respectively. With a massive amount of inventory and growing demand, Netflix is poised to benefit from increasing adoption among advertisers and further competition in an auction-based ad pricing format, according to this participant.

6. **Potential TikTok ban suggests potential upside for Meta's Reels.** As it stands, the courts are planning to ban TikTok on January 19, 2025. However, the U.S. Supreme Court will hear TikTok arguments to delay or overturn the U.S. law banning it. At the time of this publication, Bloomberg is reporting the Supreme Court is indicating it is likely to uphold the ban of TikTok in the U.S. This participant believes any ban will continue to be challenged by TikTok's parent company. The ad participant is still unsure of what form the ban will take; if TikTok is removed from the app store, the U.S. might still allow existing users access. This scenario creates a "slow death" that will likely drive users to continue to seek out short-form video content from other platforms like Instagram's Reels, over the long term. This would present plenty of upside to Meta as Reels can monetize at three times the rate of TikTok.

Stock Thoughts and Risks. We outline the stock thoughts and risks of referenced companies below.

Alphabet (GOOG $193.17; Outperform) – Stock Thoughts and Risks. Using our DCF framework, we see roughly mid- to high-teens upside through the next 12 months using a discount rate of 10% and an EBITDA multiple of 13 times. As a result of Google's continued product innovations and successful leveraging of AI technologies to improve its offering across all key operating segments, we maintain our Outperform rating. Risks to our thesis include privacy and regulation concerns and overhang, a worsening macro environment that impacts advertising spend, artificial intelligence's potential impact on search, and growth competition from Meta Platforms, Microsoft, and Amazon.

Meta (META $615.86; Outperform) – Stock Thoughts and Risks. While we acknowledge that the scale and timing of the GenAI investment will be larger and longer than previous platform investments, we believe it is still exercising prudence in spending and ultimately will remain one of the leaders in the AI race. Using our DCF framework, we believe the stock has roughly 25% upside over the next 12 months using a 10% discount rate and a 15-times EBITDA multiple. Risks include privacy concerns, increasing regulatory scrutiny, stalling user growth, artificial intelligence, macro advertising spend pullback, and slowing engagement. We maintain our Outperform rating.

Netflix (NFLX $837.69; Outperform) – Stock Thoughts and Risks. Netflix remains well positioned to be a secular streaming winner, in our view, and we believe the company will continue to have pricing power assuming it continues to produce strong content. Using our DCF with a discount rate of roughly 10% and a 25-times EBITDA multiple, we forecast upside in the mid- to high teens over the next 12 months. We maintain our Outperform rating. Risks to our thesis include increasing competition and higher-than-anticipated churn due to a worsening macroeconomic environment and ongoing monetization efforts.

Trade Desk (TTD $118.80; Outperform) – Stock Thoughts and Risks. We maintain our Outperform rating due to its differentiated platform, high margin profile coupled with strong top-line growth, and expansive market opportunity both domestically and internationally. Going forward, we believe the stock will be driven more by top-line growth than multiple expansion. Risks to our thesis include a worsening macroeconomic environment, a slower-than-expected phasing-out of cookies, increased regulatory headwinds, and the ability to maintain its current take-rate.

The prices of the common stock of other public companies mentioned in this report follow:

Amazon.com, Inc. (Outperform) $218.94
Reddit $167.08

IMPORTANT DISCLOSURES

One or more of the research analysts responsible for covering Airbnb, Inc., Alphabet, Inc. and Meta Platforms, Inc. mentioned in this report owns shares of the security.

William Blair or an affiliate beneficially own or control (either directly or through its managed accounts) 1% or more of the equity securities of ZipRecruiter, Inc. as of the end of the month ending not more than 40 days from the date herein.

William Blair or an affiliate is a market maker in the security of 1stdibs.com, Inc., Airbnb, Inc., Alphabet, Inc., AppLovin Corp., CarGurus Inc., Dolby Laboratories, Inc., DoorDash Inc., Duolingo, Inc., EverQuote, Inc., Meta Platforms, Inc., NerdWallet, Inc., Netflix, Inc., Roku, Inc., The Trade Desk, Inc., Uber Technologies, Inc., Vivid Seats Inc. and ZipRecruiter, Inc.

William Blair or an affiliate expects to receive or intends to seek compensation for investment banking services from 1stdibs.com, Inc., Airbnb, Inc., Alphabet, Inc., AppLovin Corp., CarGurus Inc., Dolby Laboratories, Inc., DoorDash Inc., Duolingo, Inc., EverQuote, Inc., Meta Platforms, Inc., NerdWallet, Inc., Netflix, Inc., Roku, Inc., The Trade Desk, Inc., Uber Technologies, Inc., Vivid Seats Inc. and ZipRecruiter, Inc. or an affiliate within the next three months.

Officers and employees of William Blair or its affiliates (other than research analysts) may have a financial interest in the securities of 1stdibs.com, Inc., Airbnb, Inc., Alphabet, Inc., AppLovin Corp., CarGurus Inc., Dolby Laboratories, Inc., DoorDash Inc., Duolingo, Inc., EverQuote, Inc., Meta Platforms, Inc., NerdWallet, Inc., Netflix, Inc., Roku, Inc., The Trade Desk, Inc., Uber Technologies, Inc., Vivid Seats Inc. and ZipRecruiter, Inc.

This report is available in electronic form to registered users via R*Docs™ at https://williamblairlibrary.bluematrix.com or www.williamblair.com.

Please contact us at +1 800 621 0687 or consult https://www.williamblair.com/equity-research/coverage for all disclosures.

Ralph Schackart attests that 1) all of the views expressed in this research report accurately reflect his/her personal views about any and all of the securities and companies covered by this report, and 2) no part of his/her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed by him/her in this report. We seek to update our research as appropriate. Other than certain periodical industry reports, the majority of reports are published at irregular intervals as deemed appropriate by the research analyst.

DOW JONES: 41938.40
S&P 500: 5827.04
NASDAQ: 19161.60

Additional information is available upon request.

Current Rating Distribution (as of January 11, 2025):

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	71	Outperform (Buy)	9
Market Perform (Hold)	28	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm’s departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

OTHER IMPORTANT DISCLOSURES

Stock ratings and valuation methodologies: William Blair & Company, L.L.C. uses a three-point system to rate stocks. Individual ratings reflect the expected performance of the stock relative to the broader market (generally the S&P 500, unless otherwise indicated) over the next 12 months. The assessment of expected performance is a function of near-, intermediate-, and long-term company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) - stock expected to outperform the broader market over the next 12 months; Market Perform (M) - stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) - stock expected to underperform the broader market over the next 12 months; not rated (NR) - the stock is not currently rated. The valuation methodologies include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others. Stock ratings and valuation methodologies should not be used or relied upon as investment advice. Past performance is not necessarily a guide to future performance.

The ratings and valuation methodologies reflect the opinion of the individual analyst and are subject to change at any time.

Our salespeople, traders, and other professionals may provide oral or written market commentary, short-term trade ideas, or trading strategies-to our clients, prospective clients, and our trading desks-that are contrary to opinions expressed in this research report. Certain outstanding research reports may contain discussions or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent report on a company or issuer. Our asset management and trading desks may make investment decisions that are inconsistent with recommendations or views expressed in this report. We will from time to time have long or short positions in, act as principal in, and buy or sell the securities referred to in this report. Our research is disseminated primarily electronically, and in some instances in printed form. Research is simultaneously available to all clients. This research report is for our clients only. No part of this material may be copied or duplicated in any form by any means or redistributed without the prior written consent of William Blair & Company, L.L.C.

This is not in any sense an offer or solicitation for the purchase or sale of a security or financial instrument. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise, except with respect to any disclosures relative to William Blair or its research analysts. Opinions expressed are our own unless otherwise stated and are subject to change without notice. Prices shown are approximate. This report or any portion hereof may not be copied, reprinted, sold, or redistributed or disclosed by the recipient to any third party, by content scraping or extraction, automated processing, or any other form or means, without the prior written consent of William Blair. Any unauthorized use is prohibited.

If the recipient received this research report pursuant to terms of service for, or a contract with William Blair for, the provision of research services for a separate fee, and in connection with the delivery of such research services we may be deemed to be acting as an investment adviser, then such investment adviser status relates, if at all, only to the recipient with whom we have contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing). If such recipient uses these research services in connection with the sale or purchase of a security referred to herein, William Blair may act as principal for our own account or as riskless principal or agent for another party. William Blair is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

For important disclosures, please visit our website at williamblair.com.

This material is distributed in the United Kingdom and the European Economic Area (EEA) by William Blair International, Ltd., authorised and regulated by the Financial Conduct Authority (FCA). William Blair International, Limited is a limited liability company registered in England and Wales with company number 03619027. This material is only directed and issued to persons regarded as Professional investors or equivalent in their home jurisdiction, or persons falling within articles 19 (5), 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not "relevant persons."

William Blair & Company, L.L.C. licenses and applies the SASB Materiality Map® and SICSTM in our work.

William Blair

Equity Research Directory

John Kreger, Partner **Director of Research** **+1 312 364 8612**
Kyle Harris, CFA, Partner **Operations Manager** **+1 312 364 8230**

Scott Hansen **Associate Director of Research** **+1 212 245 6526**

CONSUMER

Sharon Zackfia, CFA, Partner **+1 312 364 5386**
Group Head–Consumer
Lifestyle and Leisure Brands, Restaurants, Automotive/E-commerce

Jon Andersen, CFA, Partner **+1 312 364 8697**
Consumer Products

Phillip Blee, CPA **+1 312 801 7874**
Home and Outdoor, Automotive Parts and Services, Discount and Convenience

Dylan Carden **+1 312 801 7857**
E-commerce, Specialty Retail

ECONOMICS

Richard de Chazal, CFA **+44 20 7868 4489**

ENERGY AND SUSTAINABILITY

Jed Dorsheimer **+1 617 235 7555**
Group Head–Energy and Sustainability
Generation, Efficiency, Storage

Tim Mulrooney, Partner **+1 312 364 8123**
Sustainability Services

FINANCIAL SERVICES AND TECHNOLOGY

Adam Klauber, CFA, Partner **+1 312 364 8232**
Group Head–Financial Services and Technology
Financial Analytic Service Providers, Insurance Brokers, Property & Casualty Insurance

Andrew W. Jeffrey, CFA **+1 415 796 6896**
Fintech

Cristopher Kennedy, CFA **+1 312 364 8596**
Fintech, Specialty Finance

Jeff Schmitt **+1 312 364 8106**
Wealthtech, Wealth Management, Capital Markets Technology

GLOBAL SERVICES

Tim Mulrooney, Partner **+1 312 364 8123**
Group Head–Global Services
Commercial and Residential Services

Andrew Nicholas, CPA **+1 312 364 8689**
Consulting, HR Technology, Information Services

Trevor Romeo, CFA **+1 312 801 7854**
Staffing, Waste and Recycling

HEALTHCARE

Biotechnology

Matt Phipps, Ph.D., Partner **+1 312 364 8602**
Group Head–Biotechnology

Sami Corwin, Ph.D. **+1 312 801 7783**

Lachlan Hanbury-Brown **+1 312 364 8125**

Andy T. Hsieh, Ph.D., Partner **+1 312 364 5051**

Myles R. Minter, Ph.D. **+1 617 235 7534**

Sarah Schram, Ph.D. **+1 312 364 5464**

Healthcare Technology and Services

Ryan S. Daniels, CFA, Partner **+1 312 364 8418**
Group Head–Healthcare Technology and Services
Healthcare Technology, Healthcare Services

Margaret Kaczor Andrew, CFA, Partner **+1 312 364 8608**
Medical Technology

Brandon Vazquez, CFA **+1 212 237 2776**
Dental, Animal Health, Medical Technology

Life Sciences

Matt Larew, Partner **+1 312 801 7795**
Life Science Tools, Bioprocessing, Healthcare Delivery

Andrew F. Brackmann, CFA **+1 312 364 8776**
Diagnostics

Max Smock, CFA **+1 312 364 8336**
Pharmaceutical Outsourcing and Services

INDUSTRIALS

Brian Drab, CFA, Partner **+1 312 364 8280**
Co-Group Head–Industrials
Advanced Manufacturing, Industrial Technology

Ryan Merkel, CFA , Partner **+1 312 364 8603**
Co-Group Head–Industrials
Building Products, Specialty Distribution

Louie DiPalma, CFA **+1 312 364 5437**
Aerospace and Defense, Smart Cities

Ross Sparenblek **+1 312 364 8361**
Diversified Industrials, Robotics, and Automation

TECHNOLOGY, MEDIA, AND COMMUNICATIONS

Jason Ader, CFA, Partner **+1 617 235 7519**
Co-Group Head–Technology, Media, and Communications
Infrastructure Software

Arjun Bhatia, Partner **+1 312 364 5696**
Co-Group Head–Technology, Media, and Communications
Software

Dylan Becker, CFA **+1 312 364 8938**
Software

Louie DiPalma, CFA **+1 312 364 5437**
Government Technology

Jonathan Ho, Partner **+1 312 364 8276**
Cybersecurity, Security Technology

Maggie Nolan, CPA, Partner **+1 312 364 5090**
IT Services

Jake Roberge **+1 312 364 8056**
Software

Ralph Schackart III, CFA, Partner **+1 312 364 8753**
Internet and Digital Media

Stephen Sheldon, CFA, CPA, Partner **+1 312 364 5167**
Vertical Technology – Real Estate, Education, Restaurant/Hospitality

EDITORIAL AND SUPERVISORY ANALYSTS

Steve Goldsmith, Head Editor and SA **+1 312 364 8540**

Audrey Majors, Editor and SA **+1 312 364 8992**

Beth Pekol Porto, Editor and SA **+1 312 364 8924**

Lisa Zurcher, Editor and SA **+44 20 7868 4549**