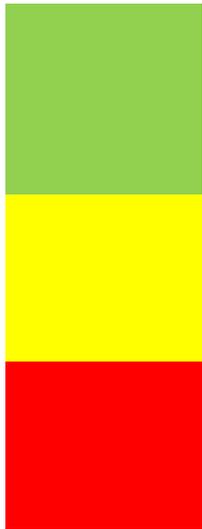


July 18, 2019

**BULLISH**



FB, GOOG, AMZN, DIS  
TWTR, FOX, CBS  
PINS

ROKU, SNAP, TWX, VIA

CRTO  
TTD

**BEARISH**



**VERTICAL**  
MARKET INTELLIGENCE  
GROUP

**Facebook: Automatic  
Placement Enhancing Ad  
Efficiency**

**FB**  
CRTO, GOOG, GOOGL, SNAP,  
TTD, TWTR

Phil Leggiere  
(802) 258-0754  
[phil@vertintel.com](mailto:phil@vertintel.com)

Michael Foster  
(347) 566-0936  
[mike@vertintel.com](mailto:mike@vertintel.com)

**Broadening usage of Carousel, Instant Experience, Dynamic Product ads, facilitated by wider adoption of automatic placement, is improving overall engagement, ROIs and eCPM's., while lowering aggregate CPAs.**

- Spending on FB rose yy in 2Q19 by 28% on average (versus 31% yy in 1Q19), roughly in-line with source expectations; 3Q19 yy growth projected at 26%.
- Automatic placement spurring diversification of spending across formats; attributable ROI from Stories ads improving as advertisers learn to run and manage hybrid Stories/retargeting campaigns for ecommerce.
- Marketplace and Messenger ads increasingly finding a place in ecommerce mix; strong early enthusiasm for Instagram Shopping and Instagram Checkout continues

**Mild Spending Deceleration According to Plan**

Sources saw spending rise 28% yy in 2Q19, in-line with expectations both in 1Q19 and mid-2Q19 (see VMI's June note), with sources noting that a combination of iterative ROI improvements along a variety of audience segmentation options and a more aggressive adoption of DPAs and newer ecommerce-friendly formats has helped to boost overall spending. "We see a lot more opportunities to promote products further down the funnel on Facebook's properties, and that's been driving our spending more than anything," said a source. "Facebook is still well behind Google, much less Amazon, as an ecommerce platform. However, the progress toward that goal is meaningful," said another source.

Sources see spending to continue on its current trajectory, with growth ebbing very slightly to 26% yy in 3Q19, but sources said an even slower rate of spending growth deceleration is possible among smaller advertisers as they get more familiar with the variety of ad formats currently available on Facebook.

### **Automatic Placement Boosts Performance**

A key move toward boosting ad efficiency and eliminating confusion among smaller advertisers regarding which ads are best for their campaigns has been a key focus at Facebook, and those efforts are bearing fruit. “The challenge with Facebook has been keeping up with all the new ad formats. It’s been hard to do and so by default either advertisers stuck with the newsfeed only ads, pushing CPAs up dangerously high, or tried to experiment on their own, inefficiently,” said a source. “By making it easier to optimize spending across a wide variety of ad units, showing for example how lower-priced Stories ads can improve conversion on higher price product ads, Facebook is starting to create more of a win-win for advertisers. There’s less congestion in the newsfeed which means lower CPAs and higher CTRs.”

Sources noted that Facebook’s back-end improvements to automatic placement has made pricing much more efficient, which in turn has boosted spending. “We don’t see ridiculous pricing on Facebook anymore, which was a problem about a year ago as Facebook introduced all these formats and people stuck with just plain newsfeed ads, driving pricing too high. Now that more people understand how to make creative that can work for a variety of placements, pricing is much fairer and overall performance is better,” said a source. “It’s not really a question of doing Stories or Newsfeed or Lead Gen on Messenger. It’s really how to use them all in an optimal mix. That’s been a stumbling block for manually run campaigns, but automated placement, while not perfect, is removing confusion and friction.”

### **Attributable ROI Boosts Stories Investment**

In addition to seeing wide across-the-board improvements in ad efficiency, sources were pleasantly surprised to see Stories spending has exceeded prior expectations, with previous concerns about ad performance attribution fading and confidence over cross-format ad targeting rising. “Where the murkiness has been with Stories is knowing how to attribute ROI beyond awareness. As we steadily get better at attributing post-engagement behavior in tandem with more ecommerce units, it’s getting easier to see how Stories can be used to improve overall ROI in aggregate, which is what counts,” said a source. “Stories is not just about branding anymore—it’s still not the last touchpoint where you close a sale, but it’s also not entirely worthless for an mcommerce campaign. The key is figuring out how Stories can improve clickthroughs on other ad formats, and more people are learning how to make those attributions possible, both on Facebook and Snapchat,” said a source.

### **Marketplace, Messenger, Instagram See Growing Interest**

Source spending on Marketplace and Messenger ads is seeing rapid growth on a small base, with some sources saying competition for ads on Marketplace in particular is growing as a result of very aggressive spending from small-business advertisers. “It’s a

good place to reach an audience who is in buying mode, while Messenger ads are great for retargeting and upselling,” said a source. In the future, sources expect to be able to use a mix of Messenger, Marketplace, and other ad formats as well as Instagram Shopping and Checkout to drive in-app purchases, and direct-response advertisers are happy to leverage Facebook’s infrastructure to drive sales instead of building up their own external platforms. “The merchants who have been sampling Instagram Checkout are pretty impressed with the potential. But, more immediately, units like playable apps or Instant Experiences, which enable interaction within the Facebook app, rather than off-app, are driving strong leads and, in some cases, sales directly within Facebook.”

***Disclaimer***

Certifications: I, Phil Leggiere, hereby certify that the views, if any, expressed in the foregoing report accurately reflect my personal views about the subject securities and issuers as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the views contained in this report.

Neither I, Phil Leggiere, nor a member of my household, holds a position in or has purchased the securities (or derivatives thereof) which are the subject of this report. Neither I, nor any member of my household, is an officer, director, or advisory board member of the issuers or has another significant affiliation with the issuers that are the subject of this report. I do not know or have reason to know at the time of this publication of any other material conflict of interest. Disclosures. The Vertical Market Intelligence Group, LLC, (hereinbelow, “Vertical Market Intelligence”) is a New York domiciled limited liability company that publishes investigative reports on issuers and securities. Vertical Market Intelligence is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws.

Vertical Market Intelligence reports are intended to provide general and impersonalized business and financial information and commentary and are prepared without regard to the financial circumstances or objectives of any particular person. Such reports are not intended to be a complete analysis of the securities discussed therein and, accordingly, are insufficient by themselves upon which to base an investment decision. The appropriateness of a particular security or strategy will depend on an investor's individual circumstances and objectives, and the securities and strategies discussed in this publication may not be suitable for any particular investor. Investors should independently evaluate particular securities and strategies with the assistance of their own financial advisers.

Vertical Market Intelligence reports are not intended to be a recommendation of or the solicitation for the purchase, sale or otherwise trading of any particular security. The use of the terms “bullish” and “bearish” when referring to an issuer or security is intended to convey the contributors’ general impression of the of the issuer or security and is not intended to represent a buy or sell recommendation.

Vertical Market Intelligence reports are for the sole use of their intended recipients, all of whom are institutional investors who are knowledgeable of the securities industry and able to adequately assess the information provided as it applies to their investment decision-making process.

Vertical Market Intelligence strives to ensure that the information provided in its reports is accurate as of the publication date. However, Vertical Market Intelligence and its employees make no representation that the information provided therein is accurate or complete. Further,

Vertical Market Intelligence has no obligation to update its reports should such information subsequently change.

Vertical Market Intelligence as well as its affiliates, managers, members, officers, and employees, other than contributors, editors, and other individuals with access to Vertical Market Intelligence reports prior to their publication, may from time to time (a) maintain long or short positions in, (b) act as a market maker or principally trade in, or (c) buy and sell the securities (or derivatives securities thereof) covered in Vertical Market Intelligence reports.

Vertical Market Intelligence is an affiliate of the registered broker-dealer The Vertical Trading Group, LLC, dba The Vertical Group, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. Vertical Market Intelligence employees are not registered representatives of The Vertical Group. Vertical Market Intelligence reports are reviewed before publication by a licensed supervisory analyst of The Vertical Group. Under a licensing agreement, The Vertical Group is authorized to distribute Vertical Market Intelligence reports to its institutional clients.

© The Vertical Market Intelligence Group, LLC. All rights reserved.