

Meta Platforms, Inc. (META)
Fourth Quarter 2022 Results – Prepared Remarks
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Deborah Crawford, VP, Investor Relations

Thank you. Good afternoon and welcome to Meta Platforms fourth quarter 2022 earnings conference call. Joining me today to discuss our results are Mark Zuckerberg, CEO and Susan Li, CFO. Javier Olivan, COO is also on the call and will join Mark and Susan for the Q&A portion.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements.

Factors that could cause these results to differ materially are set forth in today's press release, and in our quarterly report on form 10-Q filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

During this call we may present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and an accompanying investor presentation are available on our website at investor.fb.com.

And now, I'd like to turn the call over to Mark.

Mark Zuckerberg, CEO

Hey everyone and thanks for joining us today.

2022 was a challenging year, but I think we ended it having made good progress on our main priorities and setting ourselves up to deliver better results this year as long as we keep pushing on efficiency. I said last quarter that I thought our product trends look better than most of the commentary out there suggests. I think that's even more the case now. We reach more than 3.7 billion people monthly across our family of apps. On Facebook, we now reach 2 billion daily actives and almost 3 billion monthly. The number of people daily using Facebook, Instagram and WhatsApp is the highest it's ever been.

Before getting into our product priorities, I want to discuss my management theme for 2023, which is the "year of efficiency". We closed last year with some difficult layoffs and restructuring some teams. When we did this, I said clearly that this was the beginning of our focus on efficiency and not the end. Since then, we've taken some additional steps like working with our infrastructure team on how to deliver our roadmap while spending less on capex. Next, we're working on flattening our org structure and removing some layers of middle management to make decisions faster, as well as deploying AI tools to help our engineers be more productive. As part of this, we're going to be more proactive about cutting projects that aren't performing or may no longer be as crucial, but my main focus is on increasing the efficiency of how we execute our top priorities.

I think there's going to be some more that we can do to improve our productivity, speed, and cost structure, and by working on this over a sustained period I think we'll both build a stronger technology

company and become more profitable. I am very focused on doing this in a way that helps us build better products, and because of that, even if our business outperforms our goals, this will stay our management theme for the year so I think it's going to make us a better company. At the same time, I'm also focused on delivering better financial results than what we've reported recently and on meeting the expectation that I outlined last year of delivering compounding earnings growth even while investing aggressively in future technology.

Next, I want to give some updates on our priority areas. Our priorities haven't changed since last year. The two major technological waves driving our roadmap are AI today and over the longer term the metaverse.

First, let's talk about our AI discovery engine. Facebook and Instagram are shifting from being organized solely around people and accounts you follow to increasingly showing more relevant content recommended by our AI systems. This covers every content format -- which is something that makes our services unique -- but we're especially focused on short-form video since Reels is growing so quickly. I'm really proud of our progress here. Reels plays across Facebook and Instagram have more than doubled over the last year, while the social component of people resharing Reels has grown even faster and has more than doubled on both apps in just the last 6 months.

The next bottleneck that we're focused on to continue growing Reels is improving monetization efficiency, or the revenue that's generated per minute of Reels watched. Currently, the monetization efficiency of Reels is much less than feed, so the more that Reels grows, even though it adds engagement to the system overall, it takes some time away from feed and we actually lose money. But people want to see more Reels though, and the key to unlocking that is improving our monetization efficiency so that we can show more Reels without losing increasing amounts of money. We're making progress here, and our monetization efficiency on Facebook has doubled in the past six months. In terms of the revenue headwind, we're still on track to be roughly neutral by the end of this year or maybe early next year, and after that we should be able to profitably grow Reels while keeping up with the demand that we see.

In our broader ads business, we're continuing to invest in AI and we're seeing our efforts pay off here. In the last quarter, advertisers saw over 20% more conversions than in the year before. And combined with a declining cost per acquisition, this has resulted in higher returns on ad spend.

We continue to be excited about the monetization opportunity with business messaging too. Facebook and Instagram are the first two pillars of our business, and in the next few years we hope to bring messaging online as the next pillar. One way of doing this is click-to-message ads, which is now at a \$10 billion run rate.

Paid messaging is the other piece of this. We're earlier here, but we continue to onboard more businesses to the WhatsApp Business Platform, where they can answer customer questions, send updates, and sell directly in chat. For example, AirFrance started using WhatsApp to share boarding passes and other flight information in 22 countries and in 4 languages. Businesses often tell us that more people open their messages and they get better results on WhatsApp than other channels.

AI is the foundation of our discovery engine and our ads business -- and we also think it's going to enable many new products and additional transformations within our apps. Generative AI is an extremely

exciting new area with so many different applications, and one of my goals for Meta is to build on our research to become a leader in generative AI in addition to our leading work in recommendation AI.

The last area that I want to talk about is the metaverse. We shipped Quest Pro at the end of last year, and I'm really proud of it. It's the first mainstream mixed reality device, and we're setting the standard for the industry with our Meta Reality system. As always, the reason why we're focused on building these platforms is to deliver better social experiences than what's possible today on phones. The value of MR is that you can experience the immersion and presence of VR while still being grounded in the physical world around you. We're already seeing developers build out some impressive new experiences like Nanome for 3D modeling molecules and drug development, Arkio for architects and designers to create interiors, and of course a lot of great games. The MR ecosystem is relatively new, but I think it's going to grow a lot in the next few years. Later this year, we're going to launch our next generation consumer headset, which will feature Meta Reality as well, and I expect that this is going to establish this technology as the baseline for all headsets going forward, and eventually of course for AR glasses as well.

Beyond MR, the broader VR ecosystem continues growing. There are now over 200 apps on our VR devices that have made more than \$1 million in revenue.

We're also continuing to make progress with avatars. We just launched avatars on WhatsApp last quarter and more than 100 million people have already created avatars in the app. Of those, about one in five are using their avatar as their WhatsApp profile photo. I thought that was an interesting example of how the Family of Apps and metaverse visions come together. Because even though most of our Reality Labs investment is going towards future computing platforms -- glasses, headsets, and the software to run them -- as the technology develops, most people are going to experience the metaverse for the first time on phones and start building up their digital identities across our apps.

Alright, so those are the areas we're focused on: AI, including our discovery engine, ads, business messaging, and increasingly generative AI, and the future platforms for the metaverse. From an operating perspective, we're focused on efficiency and continuing to streamline the company so we can execute these priorities as well as possible and build a better company while improving our business performance.

As always, I'm grateful to our teams for your work on all of these important areas, and to all of you for being on this journey with us. And now, over to Susan.

Susan Li, CFO

Thanks Mark and good afternoon everyone.

Let's begin with our consolidated results. All comparisons are on a year-over-year basis unless otherwise noted.

Q4 total revenue was \$32.2 billion, down 4% or up 2% year-over-year on a constant currency basis. Had foreign exchange rates remained constant with Q4 of last year, total revenue would have been approximately \$2.0 billion higher.

Q4 total expenses were \$25.8 billion, up 22% compared to last year.

In terms of the specific line items:

Cost of revenue increased 31%, driven mostly by a write-down of certain data center assets as well as growth in infrastructure-related costs.

R&D increased 39%, Marketing & Sales increased 4%, and G&A decreased 7%.

Operating lease impairments and employee-related costs were the largest contributors to growth for all three expense lines.

However, growth in Marketing and Sales was partially offset by lower marketing spend, and growth in G&A was more than fully offset by a decrease in legal-related expenses.

We ended the fourth quarter with over 86,400 employees, which includes a substantial majority of the approximately 11,000 employees impacted by our previously announced layoff who remained on payroll as of December 31st due to applicable legal requirements. We expect the vast majority of impacted employees will no longer be captured in our reported headcount figures by the end of the first quarter of 2023.

Fourth quarter operating income was \$6.4 billion, representing a 20% operating margin.

Our tax rate for the quarter was 24%.

Net income was \$4.7 billion or \$1.76 per share.

Capital expenditures, including principal payments on finance leases, were \$9.2 billion, driven by investments in servers, data centers, and network infrastructure.

Free cash flow was \$5.3 billion and we ended the year with \$40.7 billion in cash and marketable securities. In the fourth quarter we repurchased \$6.9 billion of our Class A common stock, bringing our total share repurchases for the full year to \$27.9 billion. We had \$10.9 billion remaining on our prior authorization as of December 31st and today we announced a \$40 billion increase in our stock repurchase authorization.

Moving now to our segment results.

I'll begin with our Family of Apps segment.

Our community across the Family of Apps continues to grow. We estimate that approximately 2.96 billion people used at least one of our Family of Apps on a daily basis in December, and that approximately 3.74 billion people used at least one on a monthly basis.

Facebook continues to grow globally and engagement remains strong. We reached 2.00 billion Facebook daily active users for the first time in December, up 4% or 71 million compared to last year. DAUs represented approximately 67% of the 2.96 billion monthly active users in December. MAUs grew by 51 million or 2% compared to last year.

Q4 Total Family of Apps revenue was \$31.4 billion, down 4% year over year.

Q4 Family of Apps ad revenue was \$31.3 billion, down 4% but up 2% on a constant currency basis.

Consistent with our expectations, Q4 revenue remained under pressure from weak advertising demand, which we believe continues to be impacted by the uncertain and volatile macroeconomic landscape.

The financial services and technology verticals were the largest negative contributors to the year-over-year decline in Q4, but both have relatively smaller shares of our revenue. Growth remained negative in our largest verticals, online commerce and CPG, though the pace of y/y decline in online commerce has slowed compared to last quarter. The largest positive contributors to year-over-year growth in Q4 were the travel and healthcare verticals, though both are relatively smaller verticals in absolute share.

Foreign currency remained a significant headwind to advertising revenue growth in all international regions. On a user geography basis, ad revenue growth was strongest in Rest of World at 5%. North America was flat while Asia-Pacific and Europe declined 3% and 16%, respectively.

In Q4, the total number of ad impressions served across our services increased 23% and the average price per ad decreased 22%. Impression growth was primarily driven by the Asia-Pacific and Rest of World regions. The year-over-year decline in pricing was primarily driven by strong impression growth, especially from lower monetizing surfaces and regions, lower advertiser demand and foreign currency depreciation. While overall pricing remains under pressure from these factors, we have continued to make improvements to our ads targeting and measurement that we believe are driving more conversions and better returns for advertisers.

Family of Apps other revenue was \$184 million in Q4, up 19%, with strong business messaging revenue growth from our WhatsApp Business Platform partially offset by a decline in other line items.

We continue to direct the majority of our investments toward the development and operation of our Family of Apps. In Q4, Family of Apps expenses were \$20.8 billion, representing 81% of our overall expenses. FoA expenses were up 23% due primarily to restructuring-related expenses and growth in infrastructure-related costs.

Family of Apps operating income was \$10.7 billion, representing a 34% operating margin.

Within our Reality Labs segment, Q4 revenue was \$727 million, down 17% due to lower Quest 2 sales.

Reality Labs expenses were \$5.0 billion, up 20% due primarily to employee-related costs and restructuring-related expenses.

Reality Labs operating loss was \$4.3 billion.

Before turning to the outlook, I'd like to discuss our work to grow profitability by scaling monetization and improving our operational efficiency.

There are two primary levers to increasing monetization - growing supply and growing demand.

Growing ad supply gives businesses more opportunities to get in front of people, and we are focused on enabling that in a couple of ways. First and foremost, we remain focused on building engaging experiences for the people who use our apps. We are coming into 2023 with a strong foundation as Reels continues to scale and we're seeing in-feed recommendations contribute to engagement as we help people discover new content in their feeds. We will continue to invest in making these experiences best in class. The other side of growing supply comes from more effectively monetizing the surfaces within our apps, including those that have a lower level of ads today. In the nearer-term, ramping Reels monetization remains a primary focus. Over the longer-term we see opportunities to continue improving Facebook and Instagram monetization while also scaling revenue contributions from our messaging platforms.

Growing advertising demand is the other focus, and a big effort here is around continuing to drive advertiser performance. While we are still contending with the broader macro uncertainty and signals landscape weighing on advertiser demand in the near-term, we are making good progress on our roadmap and are already seeing improvements to ad performance and measurement from the investments we've made.

We see opportunities for continued gains in the near- and medium-term, with our AI investments powering a lot of this work as we continue to improve ads ranking and enable increased automation for advertisers to make it easier for them to run campaigns and use our systems to optimize their performance. Another opportunity we have is to further scale onsite conversions through products like click-to-message, lead ads and Shop ads. Click-to-message ads continue to grow quickly and we believe they're bringing incremental demand onto our platform, with over half of Click-to-Message advertisers exclusively using click-to-messaging ads on our platform. We see further opportunity as we continue to scale click-to-WhatsApp ads and are investing in growing newer formats like Shop ads.

Over the long-term, we're investing heavily in AI to develop and deploy privacy-enhancing technologies and continue building new tools that will make it easier for advertisers to create and deliver more relevant and engaging ads.

Moving now to our efficiency work. We took significant actions in 2022 to operate more efficiently. In Q4, we made the difficult decision to layoff employees while de-prioritizing certain projects and curtailing non headcount-related expenses. We have applied the same scrutiny to our physical assets. We identified opportunities to consolidate our office facilities and, we have streamlined our future data centers to a new architecture which we believe will be more cost efficient and more flexible that provides us optionality to support both AI and non-AI workloads. In Q4, we recorded \$4.2 billion of total restructuring costs in connection with all of these efforts, and expect there to be some additional costs in 2023 in areas like office facilities impairments as we continue this work.

As Mark has said, these actions are just the beginning of our efficiency efforts and we remain keenly focused on this in 2023. We are working across the company to de-prioritize lower ROI work, move faster, increase productivity and reduce costs across the business. As part of this, we are carefully scrutinizing our hiring needs, actively re-evaluating projects, and reducing management layers. I am confident our company-wide focus on efficiency will position us to be an even more productive organization going forward.

Turning now to the revenue outlook.

We expect first quarter 2023 total revenue to be in the range of \$26-28.5 billion. Our guidance assumes foreign currency will be an approximately 2% headwind to year-over-year total revenue growth in the first quarter, based on current exchange rates.

Turning now to the expense outlook.

We anticipate our full-year 2023 total expenses will be in the range of \$89-95 billion, lowered from our prior outlook of \$94-100 billion due to slower anticipated growth in payroll expenses and cost of revenue. We now expect to record an estimated \$1 billion in restructuring charges in 2023 related to consolidating our office facilities footprint. This is down from our prior estimate of \$2 billion as we recorded a portion of the charges in the fourth quarter of 2022. We may incur additional restructuring charges as we progress further in our efficiency efforts.

Turning now to the capex outlook for 2023.

We expect capital expenditures to be in the range of \$30-33 billion, lowered from our prior estimate of \$34-37 billion. The reduced outlook reflects our updated plans for lower data center construction spend in 2023 as we shift to a new data center architecture that is more cost efficient and can support both AI and non-AI workloads. Substantially all of our capital expenditures continue to support the Family of Apps.

On to tax. Absent any changes to U.S. tax law, we expect our full year 2023 tax rate percentage to be in the low twenties.

In addition, as noted on previous calls, we continue to monitor developments regarding the viability of transatlantic data transfers and their potential impact on our European operations.

In closing, 2022 was a challenging but pivotal year for our business. We made important progress on our priorities and have taken significant steps to improve our efficiency and productivity. We are set up well to build on this work in 2023 as we continue investing for future growth while remaining focused on delivering strong financial performance.

With that, Dave, let's open up the call for questions.