

**Facebook, Inc. (FB)**  
**Fourth Quarter 2020 Results – Prepared Remarks**  
**January 27<sup>th</sup>, 2021**

**Deborah Crawford, VP, Investor Relations**

Thank you. Good afternoon and welcome to Facebook's Fourth Quarter and Full Year 2020 Earnings Conference Call. Joining me today to discuss our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and Dave Wehner, CFO.

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](http://investor.fb.com).

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

**Mark Zuckerberg, CEO**

Thanks everyone for joining us today. I hope you're all staying healthy and well.

Our community and business had a strong end of the year. As Covid continued to keep many of us apart and at home, people and businesses continued relying on our services to stay in touch and create economic opportunity. 2.6 billion people now use one or more of our apps each day and more than 200 million businesses -- mostly small businesses -- use our free tools to reach customers.

Those numbers give a sense of scale, but some of the stories we hear show the impact. Groups have formed where Covid long-haulers are helping each other through a scary experience where there's not much else to turn to. Teachers are sending class assignments to students through WhatsApp. Local bookstores and coffee shops are using Instagram to let customers know they're open for curbside pick-up. We saw people come together to raise over \$1.8 billion for nonprofits and personal causes through our fundraising tools last year -- including \$175 million for Covid-related causes alone. I'm proud of the role our services played in helping people support each other during what has been such a hard time.

I've spent a fair amount of time on recent earnings calls talking about our election integrity efforts, so I'm not going to discuss them at length today, but I do want to call out that, according to our estimates, we easily surpassed our goal to help 4 million people register to vote as part of the largest effort to distribute authoritative voting information in recent history -- and I want to thank everyone involved in our teams and outside involved with that effort.

Today I'm going to focus on our product work, and specifically I'm going to focus on four themes that I'm excited about for the year ahead: communities, private messaging, commerce tools for small businesses, and building the next computing platform.

Let's start with communities. I think that helping people build communities is one of the most important things that we can do. Our social fabric is made of multiple different layers through which we get our social support. First, we have friends and family. That's the most personal layer. Then we have communities we're a part of -- where we feel a sense of purpose and belonging, explore interests, develop skills, grow as individuals, and meet new people. And finally, there's the safety net that society and government provide. In many parts of the world, there's been an unfortunate decline in community participation over the last several decades -- that's that second layer. This isn't something that we can solve alone, but I think we can help. So now that we've helped billions of people stay connected with friends and family, helping everyone find and participate in communities that are meaningful to them has been our next goal. We even updated our mission a few years ago to reflect this, making it: "give people the power to build community and bring the world closer together."

Today, more than 600 million people are now members of a group on Facebook that they consider to be meaningful in their lives. This has grown steadily over time -- and I hear all the time from people who are in parenting groups that they're a major resource as they navigate raising kids, or from people who found a group that shares the same health condition and they can lean on that community for knowledge and support, or from people who've moved to a new place and joined local groups to meet people and get situated.

Our product focus now is to develop this community infrastructure beyond feeds and message boards to help people build and run full self-sustaining community institutions. So we're building tools to help groups get things done together and provide support for people that span messaging, video chat, and even communities' own websites. And we're exploring different ways to raise funds, including donations, merchandise and membership fees, to help group leaders support their community's operations, and hire people for different roles that are needed to build sustainable communities for the long term.

As we continue to focus on this, we need to make sure the communities people connect with are healthy and positive. That's something we've been focused on for a while now. One way of course we do that is by taking down groups that break our rules against things like violence or hate speech. In September, we shared that we had removed more than 1 million groups in the last year alone. But there are also a lot of groups that we may not want to encourage people to join, even if they don't violate our policies. For example, we stopped recommending civic and political groups in the US ahead of the elections. We're continuing to fine tune how this works, but now we plan to keep civic and political groups out of recommendations for the long term, and expand this globally. To be clear, this is a continuation of work we've been doing for a while to turn down the temperature and discourage divisive conversations and communities.

Along these same lines, we're also currently considering steps we could take to reduce the amount of political content in News Feed as well. We're still working through exactly the best way to do this. And to be clear, of course we'll still enable people to engage in political groups and discussions if they want to. These can often be important and helpful. They can be ways to organize grassroots movements, speak out against injustice, or learning from people with different perspectives. So we want these discussions to keep happening. But one of the top pieces of feedback we're hearing from our

community right now is that people don't want politics and fighting to take over their experience on our services.

So one theme for this year is that we're going to continue to focus on helping millions more people participate in healthy communities and we're going to focus even more on being a force for bringing people closer together.

Next, let's talk about private messaging. As we've discussed before, while people enjoy connecting with friends and communities in the digital equivalent of a town square in apps like Facebook and Instagram, the fastest growing social experiences are about connecting privately in the digital equivalent of the living room in services like WhatsApp and Messenger. That's why we kicked off a big effort a couple of years ago to re-imagine what a modern social platform would look like if you built it from the bottom up to be privacy-first.

We identified several core principles. A private social platform should be built around the most intimate interactions that we have: one-on-one conversations. The most important aspect of privacy and security is that your conversations should stay between you. That means your conversations should always be end-to-end encrypted and they should disappear when you're done with them. Safety and reducing spam matter too, and that means that we should maintain a minimum amount of metadata to build sophisticated tools to stop bad actors using these services. You should have choice of what services you use, so we should make messaging as interoperable as possible across our apps. And, finally, no matter what, we should only store people's data in countries where we know we can keep it secure -- and we should continue opposing data localization in countries with weak records on human rights or privacy.

I think these are the privacy principles that matter most to people -- first and foremost people care that their conversations stay private, but after that people care about safety and other convenience too. And from this perspective, WhatsApp -- and the direction we're heading in with Messenger -- are the best private social apps available.

We have a lot of competitors who make claims about privacy that are often misleading. Apple recently released so-called nutrition labels which focus largely on metadata apps collect rather than the privacy and security of people's actual messages. But iMessage stores non-end-to-end encrypted backups of your messages by default unless you disable iCloud, so Apple and governments have the ability to access most people's messages. So when it comes to what matters most -- protecting people's messages, I think that WhatsApp is clearly superior.

Since I try to use these earnings calls to discuss aspects of business strategy that I think are important for investors to understand, I do want to highlight that we increasingly see Apple as one of our biggest competitors. iMessage is a key linchpin of their ecosystem. It comes pre-installed on every iPhone and they've preferenced it with private APIs and permissions, which is why iMessage is the most used messaging service in the US. And now, we're also seeing Apple's business depend more and more on gaining share in services against us and other developers. Apple has every incentive to use their dominant platform position to interfere with how our apps and other apps work, which they regularly do to preference their own. This impacts the growth of millions of businesses around the world, including with the upcoming iOS14 changes, many small businesses will no longer be able to reach their customers with targeted ads. Apple may say that they're doing this to help people, but the moves clearly track their competitive interests. I think this dynamic is important for people to understand because we and others are going to be up against this for the foreseeable future.

Our messaging services continue growing, but it's an uphill battle and our services need to be that much better as private social platforms to succeed. To make sure we remain the best, a couple years back we kicked off a number of long-term efforts that have started shipping recently, and more of these projects around strengthening encryption, ephemerality, interoperability and offering other tools are going to be shipping throughout this year.

Next, let's talk about commerce. Our goal here is to give every individual entrepreneur and small business access to the same kinds of tools that historically only the big companies have had access to. We've always cared about this, but the pandemic has made it more urgent.

It used to be the case that only large companies could afford to have analytics or targeted advertising capacity to reach their customers. It was expensive to build these capabilities and often required building teams and storing large amounts of data in-house, which most small businesses can't do. One of the things I'm most proud of is that we build the tools so we can offer these same capabilities to small businesses, often for free. So when you hear people say that we hold a lot of data, that's because hundreds of millions of businesses that would have otherwise had to do this individually and would have had no easy way of doing so are now using our services to help them reach customers. When you hear people say that we're connecting data from lots of sources, that's to help small businesses reach customers more efficiently. Big companies often do this themselves, but small businesses can't a lot of time, so we do this for them. When you hear people argue that we shouldn't do these things -- or that we should go back to the old days of untargeted television ads -- I think what they are really arguing for is a regression where only the largest companies have this capacity, small businesses are severely disadvantaged, and competition is diminished.

With our commerce tools, we've made it so that a business can set up a shop once, and then they'll have an online storefront in both Facebook and Instagram immediately, and eventually on WhatsApp and Messenger as well. We recently expanded checkout to all US businesses, making the process of buying a lot more seamless. And as the lockdowns continued, we saw more small businesses and creators also use Paid Online Events as a way to make money.

WhatsApp is also an important part of our strategy here. More than 175 million people message a WhatsApp business account every day and we're building new features to make it even easier to transact with businesses in the app. We introduced carts, which lets people browse catalogs, select multiple products, and send the order as a message to a business.

The more people that interact with businesses, the better tools we're going to need to provide for businesses to help them support their customers. Many businesses need more than a phone to manage their customer service, so we're building tools to let businesses store and manage their WhatsApp chats using our secure hosting infrastructure if they would like. We're in the process of updating WhatsApp's privacy policy and terms of service to reflect these optional experiences.

To clarify some confusion that we've seen, this update does *\*not\** change the privacy of anyone's messages with friends and family. All of these messages are end-to-end encrypted, which means we can't see or hear what you say, and we never will unless the person you messaged chooses to share it. And business messages will only be hosted on our infrastructure if the business chooses to do so. We want everyone to know the lengths we go to protect your private messages, so we're moving the date of this update back to give everyone time to understand what the update means.

Finally, let's discuss our work building the next computing platform. This is one of the areas that I'm most excited about our progress heading into 2021. If you look at the history of computing, every 15 years or so a new major platform emerges that integrates technology more naturally and ubiquitously into our lives -- starting with mainframes, then PCs, then browser-based computing, and then mobile. I believe that the next logical step is an immersive computing platform that delivers this magical sense of presence -- that you're really there with another person or in another place. Our phones can't deliver this, and neither can any other technology that has come before it. This is going to unlock the types of social experiences I've dreamed about building since I was a kid, and it's what we're building towards at Facebook Reality Labs.

We launched Quest 2 in October and it's on track to be the first mainstream virtual reality headset. We designed it so that anyone could jump in -- with the best and most immersive experience out there -- and at a price that makes it available to as many people as possible. Facebook has done more than any other company to help bring virtual reality to the mainstream. It's been great to see so many people embrace this, especially this year during the pandemic. We're seeing people use it to play games with friends when they can't be together in person, to do workouts in their living room, or meet with colleagues while working from home. There are a lot of reasons Quest 2 was one of the hot holiday gifts this year.

We're also seeing a growing ecosystem of developers building amazing new experiences for the platform. Right now, more than 60 Oculus developers are generating revenue in the millions -- that's nearly twice as many as a few months ago.

In previous quarters, I've talked about our long term, future goals when it comes to virtual reality. But I think this quarter's results show that the future is here.

Augmented reality glasses are going to be a key part of this vision too. We're still working on some of the foundational technology to underpin these -- and the ultimate product is still some years away. But this year we're excited to deliver a first glimpse of what will be when we launch our first pair of smart glasses from Ray-Ban, in partnership with Luxottica.

During this pandemic, we've also seen Portal is a great way for people to stay connected -- and especially over the holiday as families had to celebrate apart. This year, we're focused on expanding the role of Portal and virtual reality presence into the workplace -- bringing more features that can improve remote presence, collaboration and productivity.

2021 has a lot of unknowns. We don't know when vaccines will be widely available, when our teams will be back in the office, or when our lives will start feeling normal again. But what I do know is that we're going to keep investing in and innovating on the big themes that I discussed here in order to put more power in the hands of people and small businesses. I personally believe that technology can unlock progress and opportunity -- and that the full story of the internet has not yet been written. That's why I'm hopeful for the year ahead, and grateful that you're all on this journey with us.

And now, here's Sheryl to talk about our business.

**Sheryl Sandberg, COO**

Thanks Mark, and hi everyone. I hope everyone is safe and healthy.

This was a strong quarter for our business, as the acceleration of online commerce we've seen during the pandemic continued into the holiday season. Our total revenue for Q4 was \$28.1B, which is a 33% year-over-year increase, our fastest growth rate in over two years.

After a really difficult year for so many businesses, this holiday period was important. And while many businesses are still struggling, the good news is that Q4 was stronger than expected for retail. In the U.S., the National Retail Federation reported that sales in November and December went up 8% year-over-year and online sales were up 24%. This holiday period was also longer; compared to previous years, advertisers started spending earlier and sustained that spend well beyond Black Friday and Cyber Monday. We saw robust performance across all regions, as well as an improvement in brand advertising.

The strength of our Q4 performance is the result of years of investments in free and paid tools to help businesses succeed online. Even before the pandemic, businesses were going digital. But Covid made this a necessity. Almost overnight, businesses had to create digital storefronts, figure out how to take online orders, and find new ways to reach their customers. For many small companies, these steps, or even just setting up a website or a mobile app can be difficult and expensive. Our free and paid tools help solve these problems for businesses around the world.

With so many businesses struggling when the pandemic hit, we asked our teams: what do businesses need, and how can we help?

First, they need the tools to get their business up and running online. So what can we do to make ours simpler and more effective, and can we build new ones to help them?

Second, they need the digital skills and know how to succeed. So how can we help more businesses with training and resources?

And third, they need their voices to be heard. So can we use our scale to amplify their voices and tell their stories?

We've been asking these questions throughout the last year and into Q4. On the first, we accelerated our work on tools to make it easier for people to find brands and products they love, and for businesses to manage their online presence and connect with customers. Mark talked about some of the new tools we've launched, like Shops and Paid Online Events. In the fall we also rolled out Facebook Business Suite, a new interface to help businesses manage their pages or profiles across our apps.

We also continued to invest in making our products as effective as possible, so businesses can get more value for every dollar they spend. Personalized ads are privacy safe and help businesses reach customers where they are – which has been more important than ever during the pandemic. One notable area of progress this past year was in Stories ads, which have become more effective for direct response advertisers.

One business that used Stories ads is Carlota Flower Lab, a florist in Los Reyes, Mexico. Before Covid, they made 70% of their revenue from face-to-face workshops. So when the pandemic hit, founder Paola Mendoza had to get creative. She used personalized ads on Instagram to reach new audiences, and even found her first international customers with campaigns targeting California and Texas. One campaign for

Día de los Muertos – the Day of the Dead – in November led to a 24x return on ad spend, helping Paola triple her annual revenue in 2020, despite Covid.

On the second, resources and training, we did some big things in 2020. We created a Business Resource Hub – a one stop shop for resources and trainings for small businesses that we’ve continued to build out through the end of the year. We committed to reach 1M members of the Black community and 1M members of the Latinx and Hispanic communities in the U.S. with free digital skills trainings through our Elevate program by 2023. And we reimagined our Boost with Facebook events to reach businesses virtually – with 100M people tuning in throughout the year. This included our 12-week Season of Support to help businesses across 16 countries prepare for the holidays.

On the third, a great example of how we amplified the voices of our businesses in Q4 is our #BuyBlack Friday campaign – one of my favorite campaigns ever. In the U.S., Black-owned businesses closed at twice the rate of others after the start of the pandemic, so we wanted to help people shop with them over the holidays. We created ways for people to find Black businesses in their local area, a Gift Guide featuring products from Black businesses across the U.S., and even a #BuyBlack Friday Show on Facebook Live that was seen by 15M people.

One of the small businesses we featured is a vegan skincare brand called Redoux from New York City. Its founder, Asia Grant, appeared on the #BuyBlack Friday Show – and that became one of her most successful sales days ever. The campaign gave her record revenue and web traffic, and she was even able to hire more people - something that’s so important given current unemployment rates.

Business owners like Asia and Paola have worked hard to adapt and grow online. But lots of businesses will continue to struggle in 2021. So we’re going to keep listening to them and building on what we did last year. That means improving our products and tools to help businesses seamlessly manage their online presence, advertise across our apps, and communicate with customers through business messaging. It means making more training available through programs like SheMeansBusiness for women and Elevate for diverse communities. And it means finding more ways to amplify their voices, whether it’s sharing the stories of small businesses worried that Apple’s iOS14 changes will hurt their ability to reach customers, or showcasing small businesses in gift guides and products like Businesses Nearby.

I want to close by saying how grateful I am to all of the businesses around the world who work with us. Your partnership helps us build the tools you need so you can continue to grow and hire. And, as always, I’m grateful to our incredible teams who have done so much to help businesses survive this difficult year, including coming up with great ideas like #BuyBlack Friday. I hope that 2021 is a better year for everyone.

Now, here’s Dave.

**Dave Wehner, CFO**

Thanks Sheryl and good afternoon everyone.

Q4 was a strong quarter, capping off a solid year for our business as full year 2020 revenue grew 22% to \$86 billion. We have been encouraged to see improved demand for our ads during the second half of the year after facing significant headwinds at the onset of the pandemic. Our results reflect the ongoing

strength in the digital economy and the value we're providing to millions of businesses who use our services to reach consumers and generate sales.

Let's begin with our community metrics.

In December, we estimate that approximately 2.6 billion people used at least one of our services on a daily basis, and that approximately 3.3 billion people used at least one on a monthly basis.

Facebook daily active users reached 1.84 billion, up 11% or 188 million compared to last year. DAUs represented approximately 66% of the 2.80 billion monthly active users in December. MAUs grew 299 million or 12% compared to last year. Consistent with our outlook, US & Canada DAU declined 1 million sequentially as usage continued to normalize from peak COVID levels experienced earlier in the year.

Turning to the financials. All comparisons are on a year-over-year basis unless otherwise noted.

Q4 total revenue was \$28.1 billion, up 33% or 32% on a constant currency basis. We benefited from a currency tailwind and had foreign exchange rates remained constant with Q4 of last year, total revenue would have been \$339 million lower. Q4 ad revenue was \$27.2 billion, up 31% or 30% on a constant currency basis.

The growth in advertising revenue was largely driven by a strong holiday shopping season for retail, which benefited from the ongoing shift to online commerce.

On a user geography basis, ad revenue was strongest in Europe which grew 35% and benefited from currency tailwinds. US & Canada grew 31%, and Asia-Pacific grew 29%. Rest of World growth improved to 25% but continues to be significantly impacted by currency headwinds.

In Q4, the total number of ad impressions served across our services increased 25% and the average price per ad increased 5%.

Impression growth was driven by both Facebook and Instagram. The increase in average price per ad was driven primarily by FB mobile feed as well as pricing improvement in Instagram Stories.

Other revenue was \$885 million, up 156%, due to strong Quest 2 holiday sales. We've been encouraged by the positive reception of Quest 2 since its October launch.

Turning now to expenses.

Q4 total expenses were \$15.3 billion, up 25% compared to last year. In terms of specific line items:

- Cost of revenue increased 49%, driven primarily by hardware costs related to Quest 2 sales, core infrastructure investments, and payments to partners.
- R&D increased 34%, driven primarily by hiring and investments in core products as well as our consumer hardware efforts.
- Marketing & Sales increased 8%, driven by hiring and marketing spend.
- Lastly, G&A expenses decreased 13% as we lapped charges related to the BIPA legal settlement recorded in the fourth quarter of 2019.

In the past year, we added a record 13,600 net employees and reached our goal of adding 10,000 employees in tech and product roles. We ended the year with over 58,600 full-time employees, up 30% compared to last year. We continue to be pleased with our ability to recruit, onboard, and retain talent in this environment.

Fourth quarter operating income was \$12.8 billion, representing a 46% operating margin. Our tax rate was 14%. Net income was \$11.2 billion or \$3.88 per share.

Capital expenditures were \$4.8 billion, driven by investments in data centers, servers, office facilities and network infrastructure.

Free cash flow was \$9.2 billion and we ended the quarter with \$62.0 billion in cash and marketable securities.

For the full year we repurchased \$6.3 billion of our Class A common stock and had \$8.6 billion remaining on our prior authorization as of December 31st. Today we announced a \$25 billion increase in our stock repurchase authorization.

Turning now to the outlook.

We continue to face significant uncertainty as we manage through a number of cross currents in 2021.

We believe our business has benefited from two broad economic trends playing out during the pandemic. The first is the ongoing shift to online commerce. The second is the shift in consumer demand towards products and away from services. We believe these shifts provided a tailwind to our advertising business in the second half of 2020 given our strength in product verticals sold via online commerce and our lower exposure to service verticals like travel. Looking forward, a moderation or reversal in one or both of these trends could serve as a headwind to our advertising revenue growth.

At the same time, in the first half of 2021 we will be lapping a period of growth that was negatively impacted by reduced advertising demand during the early stages of the pandemic. As a result, we expect year-over-year growth rates in total revenue to remain stable or modestly accelerate sequentially in the first and second quarters of 2021. In the second half of the year we will lap periods of increasingly strong growth which will significantly pressure year-over-year growth rates.

We also expect to face more significant ad targeting headwinds in 2021. This includes the impact of platform changes, notably iOS14, as well as the evolving regulatory landscape. While the timing of the iOS14 changes remains uncertain, we would expect to see an impact beginning late in the first quarter.

There is also continuing uncertainty around the viability of transatlantic data transfers in light of recent European regulatory developments, and like other companies in our industry, we are closely monitoring the potential impact on our European operations as these developments progress.

Turning now to expenses.

We expect 2021 total expenses to be in the range of \$68-73 billion, unchanged from our prior outlook. This is driven by investments in technical and product talent as well as continued growth in infrastructure costs.

We continue to expect 2021 capital expenditures to be in the range of \$21-23 billion, driven by data centers, servers, network infrastructure and office facilities. Our outlook includes spend that was delayed from 2020 due to the impact of the pandemic on our construction efforts.

Turning now to tax. We continue to expect our full-year 2021 tax rate to be in the high-teens.

In closing, 2020 was a unique operating environment that introduced a number of unforeseen challenges. We've been pleased with our team's ability to adapt in order to maintain the reliability of our services, deliver new products and experiences, and support the millions of businesses who use our platforms to reach consumers.

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