

Facebook, Inc. (FB)
First Quarter 2021 Follow Up Call
April 28th, 2021

Operator: Good afternoon, my name is France, and I will be your conference operator today. At this time, I would like to welcome everyone to Facebook's First Quarter Results Follow-Up Q&A Call.

All lines have been placed on mute to prevent any background noise. To ask a question, please press "one" and then number "four" on your telephone keypad. This call is recorded. Thank you very much. Ms. Deborah Crawford, Facebook's Vice President of Investor Relations, you may begin.

Deborah Crawford: Thank you. Good afternoon, and welcome to the follow-up Q&A call. With me on today's call is Dave Wehner CFO, and Susan Li VP of Finance. 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 annual report on the form 10-K 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 certain non-GAAP financial measures. The 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 back to the operator for the first question.

Operator: Thank you. We will now go to our first question from the line of Brent Thill with Jefferies. Please go ahead.

Brent Thill: Thank you. Good afternoon. A couple quick questions. One just on the margin I think you've been running the last couple quarters in the mid 40s. I think the long-term has been to think about it in the mid 30s.

Is that long-term framework, is that still a framework you're sticking with? If you could just comment on that long-term framework, and I had a quick follow up.

David Wehner: Yes. Hey, Brent. It's Dave. We're not sharing specific margin guidance at this time. We – you can obviously tell from our expense guidance if you look at the midpoint of that, we expect expenses to grow in sort of the mid 30s on a percentage basis in 2021.

And we shared sort of general comments about revenue expectations for 2021. Our primary guide for how we think about investing is whether we see opportunities which can grow profit dollars of the business over the long-term, and we're investing across the business because we see those compelling opportunities.

Now some of those areas that we're investing in like the investments that we're making in areas like FRL are going to have potentially a different margin profile, so the mix could impact our margins over the long-term, but we're not – we're really focused on the ultimate opportunity, not the – not a specific margin target. So that's kind of how we're thinking about it right now.

Brent Thill: That's helpful. And just quick follow up on the buyback, you ramped it pretty hard in Q1, \$3.9 billion. I just wanted to make sure I had the right stats. I think you had \$25 billion authorized and then you had about \$8.6 billion left on the plan. So minus this quarter you have roughly \$30 billion left on the plan. Is that – is that a correct ballpark assessment?

David Wehner: I think – yes, I think the math sounds about right, so yes. And our priority is investing in growth, and we see lots of opportunity to do that. And Mark talked about the key areas that we're investing in, but we think we can do that while generating healthy free cash flow, and we see an opportunity to deploy a greater percentage of our free cash flow towards share repurchases.

And yes, we've stepped it up in Q1. It was our second-largest quarter for repurchases on record, and we'll continue to look for opportunity for repurchases beyond our commitment to offset solution like we did in the first quarter.

Brent Thill: Thanks for the color.

David Wehner: Yes. Absolutely, Brent.

Operator: Our next question is from the line of Ross Walthall with Cleveland Research. You may go ahead.

Ross Walthall: Hey. Good afternoon. Dave, this is a question for you on Instagram Checkout. I know last quarter talked about rolling that out to a greater group of advertisers. Just curious to see if you can comment on adoption rate and how that is tying back into the shopping transactions that's tying back into driving advertiser spend?

David Wehner: Sure, Ross. Why don't I just sort of take it from kind of the overall – our sort of overall commerce and Shops strategy and how the different efforts are fitting into that. The way we think about it is there's sort of two areas where we're delivering well today.

On the commerce front the first is obviously the ads side of it. Ecommerce is already our biggest ads vertical. That's grown quickly over the past year and we've seen good growth between that over the past five years -- five plus years really.

So we know we're invaluable to helping businesses getting their products discovered and we believe Facebook and Instagram drive hundreds of billions of dollars of offsite commerce GMV through our ads business.

And then secondly, the market -- with Marketplace, we've built one of the largest classified listing sites in the world with over a billion monthly visitors. And we're trying to do three things with the commerce strategy.

We're trying to ensure that our platform remains the best place to advertise. So at the top it's really making sure that that advertising business continues to perform well. The second is to make it easier for businesses to sell on the platform and that's things like Checkout on both Facebook and Instagram.

And then finally it's making it easier for people to shop and transact on services like Shops and Marketplace. In terms of the Shop side of it, Shops is clearly the earliest of our efforts in terms of progress; that's what's targeted at the consumer sellers.

And it will take time to build traction with sellers with more complex product catalogues. It's early but we've seen the beginnings of good adoption there but there's a lot of work to do, businesses have lots of channels through which they can sell, including their own websites and we need to prove to them that it's worth investing in a shop with onsite checkout.

And we need to make that at least as effective as the merchant's existing website. So in order to do that we're partnering to make it easier for businesses to onboard and then we're working down the funnel to make sure that the conversion rates are good. But there's a lot of hard work that needs to be done there and it's a competitive landscape.

Susan Li: I would add just to clarify on that question, Instagram Checkout is only live in the U.S. right now, so we're also working on the international rollout over time.

David Wehner: Thanks, Susan.

Operator: Our next question is from the line of Rich Greenfield with LightShed Partners. Please go ahead.

Rich Greenfield: Hi. Two questions. One, I just wanted to follow-up on that last one just because I want to actually understand. You know Sheryl sort of inferred that there's still tools or things that you need to do to shopping to make the experience better. And I think that's sort of what you were ending on, Dave. But could you give us maybe an example of something that's sort of missing?

I realize there's no Checkout overseas but if you look at like the domestic experience where Checkout now exists, what would be -- if I were to look at like competitive places, what are the big things or, like, there are things that you can point to that exist on others but that don't yet exist on Facebook that you need to build? And then I have a kind of big picture follow-up.

David Wehner: Yes, I mean I think, Rich, it's about having all the tools for merchandising the content. It's making sure that you've got the right -- the right catalog features. There's things like rewards programs that people have that are important.

So there's different elements of a business's own website checkout experience that are often bespoke to that business and making sure that we've got all of the tools to be able to bring in those different elements to make sure that you get the conversion that is as effective onsite as you would on a offsite store.

So it's -- there's been a lot of work over the years that businesses have put into their web conversions. We need to make sure that we can replicate all of those features in Facebook. Susan, did you have anything to add there?

Susan Li: Yes, I could -- I can add a couple other things. There's stuff we're looking at like helping with adding ratings and reviews, experimenting with Shops' layouts, offering sort of different types of promotions like a reason to shop, being two-day free shipping, things like that. So there are a lot of features like that that we're kind of in the process of testing and figuring out how to make work well for advertisers.

And then you'll see a number of the things that we've launched, I think, this quarter in Instagram, like Drops and live shopping are things that are intended to also, I think, make the commerce experience work particularly well for creators and influencers and the way that they are doing marketing on the platform.

David Wehner: And then, Rich, I think you had a big picture question? Oh, yes, go ahead.

Rich Greenfield: Yes, I did because I guess there's just this narrative that's out there overall in the government and press, and when I talk to family, friends, clients, investors, whatever, anyone under the age of 40 has sort of given up on linear TV, maybe outside of sports and news, and generally, they point to just kind of the crappy and awful advertising experience of linear TV.

And we're seeing sort of record-low ratings across TV. And I don't hear a lot of people saying, god, I wish the advertising experience on Instagram or Facebook, or any other mobile platform, hey, I wish it felt more like TV.

And so, I guess, just you sit and live and breathe this everyday, but it's like those two things seems to contradict what you hear all the time from government officials, what you hear from Apple and Tim Cook.

It just – it seems like there seems to be a big disconnect between – like consumers seem to want ads that feel like content, and it seems like governments and other tech companies are pushing for the opposite. And I would just love to get your high-profile thoughts on that sort of disconnect.

David Wehner: Yes. It's not a ground-level concern around like, gosh, I wish my ads were less relevant. I mean, it's – there are, of course, concerns about privacy, and those are valid. And we think we already offer the ability to do targeted ads in a privacy-protected way. We don't think that something like the app-tracking transparency notifications with iOS 14 are necessary, and we think that it just is going to make it harder for businesses to target consumers.

So we think we already have a good solution for being able to have great ads in a privacy-protected way, and we think that's consistent with what consumers want, which is they're privacy protected, and still have relevant ads.

Nobody wants bad ads on their feed. And we know that people do value them. I bought a lot of great stuff over Instagram and Facebook over the past year. And it's great to see that relevant content in there, even if it's paid content.

So yes, look, you're preaching to the choir on this, Rich. We definitely agree with this, and we need to keep making that case.

Rich Greenfield: It's just – it's a fascinating disconnect I've never seen.

David Wehner: Yes, yes, it is. France, you want to go to the next question? Thanks, Rich.

Operator: Our next question is from the line of Jason Helfstein with Oppenheimer. Please go ahead.

Jason Helfstein: Thanks. And just we all do appreciate the level of detail and disclosure you go into on this call and – on the main call and then on this call. It definitely makes a more enjoyable experience to analyze your company. So just, Dave, a question on kind of advertiser cohorts, if you can.

I mean, is there anything you can share on the new businesses that have come to you because of COVID? Do they act different? Do they start out bigger?

I mean, is there any kind of narrative you can help us understand – again, that's the – kind of the positive pandemic impact that's had on you guys with the -- with SMBs or even just, kind of, medium-sized DTC advertisers relative to what that medium-sized DTC advertiser would have looked like two years ago? Thanks.

David Wehner: You start with complementing our disclosure and then you ask a question that I don't know if I actually know exactly the answers to. So -- but Susan, you were going to take a crack at it?

Susan Li: Well, no, I think you're right. We don't -- I don't think we have data at the sort of specific cohort level that you're describing. The strength that we have seen this quarter is really broad based across all of our product verticals and online commerce, obviously, specifically.

And we've talked about the macroeconomic factors that are driving that and the strength in product verticals in online commerce across the economy that are reflected on our platform. But I don't know that we have cohort-specific data.

David Wehner: I think we have seen small and medium-sized businesses outperform. Again, I don't have it on the cohort basis, but part -- a big part of the strength is the smaller advertisers and midsized advertisers participating on the platform.

So I think it speaks to we're finding a new form of -- a new type of advertiser and allowing them to target and find consumers in a way that probably the more traditional platforms that Rich was referring to just didn't allow. So I think we're creating new economic opportunity and business building capability for a wide range of small and midsized companies.

Jason Helfstein: So then maybe let me add this, I know you didn't want to give a long-term update to margin for Brent's question, but maybe the comments just about investments and doubling down, is this -- if we kind of thought we were pre-COVID from a margin outlook that we were building our models to, if we then take these comments today, does it build upon those prior pre-COVID comments or we have to just look at where we are today and make our own assessments?

David Wehner: Well, I mean, a couple things that I would say, where we are today is probably -- given the fact that COVID has had some depressive effects to expense growth and we certainly -- a year ago when we looked at our expense outlook there are certainly areas where we pulled back on spending and also areas where there's just -- was a natural depressive effect on spending from COVID, specifically things like travel, entertainment, office operations, and the like. So I think we got some benefit from margin there.

I think also the business has outperformed what our expectations were given the strength in demand. So I think we're at a particularly strong point from a margin perspective. I think we're continuing to invest aggressively to grow the business in the long term.

The mix of the business, I think, is going to change over time with investing in areas like consumer hardware. We're seeing some traction with Quest 2, but that's going to have a different margin structure and future products in that space will have a different margin structure as well. So that will impact, kind of, where our margins come out in the long run.

And then, we're focused on making sure that we continue to invest in all of the areas to -- for the -- for the long-term health of the business as well, continuing to invest in areas like privacy, continuing to invest in areas like customer support.

So I do think, while there are attractive fundamental margins in this advertising business and we do expect to have good free cash flow from them, there's also very strong reasons for us to maintain a heavy investment profile to not only ensure the long-term success of new areas of growth like the FRL investments, but also just to ensure the long-term success and health of our existing platform.

So it's kind of a long-winded answer to say we do expect to be investing heavily to ensure the long-term success of the business. We think that's going to be good ROI over time.

Jason Helfstein: Thank you.

Operator: Our next question is from the line of Mark Mahaney with ISI. Please go ahead.

Mark Mahaney: Thanks. If I could ask two questions, please. Those 200 million businesses that are on Facebook's properties, and I think it's about 5 percent that are actually advertising. What do you think is the unlock to getting that percentage up to 10 – it's not going to be 50 percent or 75 percent, but it could be still something chunky like 20 or 25 percent.

So why don't those businesses do a little bit of marketing – it's probably small marketing per business, but I think it would all add up. I'm just curious as to why you think that penetration isn't higher?

And then secondly on Facebook Marketplace, that – that usage is still high, and if you just talk with people, I think most people now use Facebook Marketplace, and they use it a lot, and monetizing that would just seem to be like a gimme, like a layup, like easy to do at some point if you want to do it.

Just talk about how you think about when and how you would want to – or just really when you would want to monetize Facebook Marketplace more directly than you're doing now? Thanks.

David Wehner: Yes, I can – why don't – I can take the first one, and then Susan you can hit on Marketplace. I mean, I think in terms of the advertising funnel, this is something that we continually work over time - we've invested in making it easy for people to do lightweight posts, lightweight advertising to drive that. The one area where I think I'd probably call out as being an interesting area for growth and getting more advertisers on the platform is the click to messaging work that we've been doing.

Mark alluded to it with 3 million advertisers using click to Messenger ads and 1 million advertisers using click to WhatsApp ads. This has been a great way to bring new advertisers to the table. It's especially relevant in some of the international markets where we see it being a very popular form of advertising.

And this is a meaningful grower, especially in some markets like in Southeast Asia. So, I think continuing to find new ways to help businesses engage, and I think messaging is one of the best areas for smaller businesses to find that – to do that. So, investing in things like the WhatsApp business app, investing in click to messaging ads. And then Susan, I think you were going to hit Marketplace?

Susan Li: Yes, so that's right. In terms of Marketplace, we are monetizing Marketplace, although I would say we're relatively early in that journey.

I think we show ads in the Marketplace surface, and then we also have boosted listings, which are a very small – a small part of our revenue but certainly a very good opportunity for sellers to boost listings that perform better basically than their – and receive more views – than their organic listing.

So those are kind of the two, I think, the two areas where we're pursuing right now. We are expanding, I think, other Marketplace specific advertising tools, which – and also on-site checkout, so hopefully that'll enable us to have more paths in terms of monetizing Marketplace in the future with more that we can do to help facilitate transactions.

Mark Mahaney: OK, thank you ...

David Wehner: France, you can go to the next question. Thanks, Mark.

Operator: Our next question is from the line of Alan Gould with Loop Capital. Please go ahead.

Alan Gould: Yes – hi. Thanks. Could you just update us on where you are with Diem, your payment system? And are you using payment systems in some international countries right now?

David Wehner: Alan, let me make sure I understand. We're – right now Diem is currently still getting the regulatory approvals to launch. We don't have a specific timeframe for that, but we're optimistic that we'll hopefully have some updates in the not-too-distant future on what the timing might look like.

In terms of payment systems in international countries we've got WhatsApp Pay in India, and then we're working in Brazil to get the central bank requirements met so that we can restore payments there. So, we are absolutely working to unlock more countries on the payments front.

Alan Gould: OK. No sense on timing though, as to when you might be launching this more broadly?

David Wehner: On Diem?

Alan Gould: On Diem, or even just your payments either WhatsApp or Messenger payments internationally.

David Wehner: Yes – you know, I don't think we have any specific updates on WhatsApp or Messenger payments beyond sort of India and Brazil, and then in terms of Facebook Pay, we do have in other international markets as well. In terms of Diem -- that's -- ultimately the Association is independent and they will be responsible updating on timing on that front.

Alan Gould: OK. Thank you so much.

David Wehner: Thanks, Alan.

Operator: Our next question is from Ygal Arounian with Wedbush, please go ahead.

Ygal Arounian: Hi, thanks for taking the questions. I need a follow-up on that last question, but more just broadly on Messenger and WhatsApp, and the progress you're making there on integrating commerce.

And then, with the full launch of the Instagram Checkout, I know it's still early days, but any early signals you're seeing there, one way or the other, that is helping you think about how you're going to build out commerce and native payments more fully on the platform?

David Wehner: Yes, I don't think anything beyond what we've talked about on the overall commerce strategy front. We're continuing to work to rollout Checkout. I know, Susan, you updated the Checkout progress, any further updates on that?

Susan Li: I don't think so. I really think that there's just -- the entire experience, I think both in terms of basically helping advertisers set up all of the infrastructure of setting up Shops, of sort of optimizing their Shops for the Facebook format, of then opting those Shops into ads, in getting ads in this new format optimized for ad targeting and delivery to users. Then also making sure that a lot of the consumer features that I think people have come to expect from online shopping are available on Shops on Facebook and Instagram, and trying to tailor that to the kinds of experiences people like on both platforms.

We talked a little bit about what we're building for our influencers and creators. That's really just an enormous body of work that we think we're pretty early in the journey of and will take a long time, and ultimately the barometer of our success here is going to really be measured by continued growth in our ecommerce ads.

David Wehner: And then on the WhatsApp front I'd probably point to – we've had a slew of different announcements as it relates to what we're trying to do on the WhatsApp front to enable commerce. We've got the WhatsApp Business App. We've got over 50 million businesses using that. That's available globally.

On the commerce front we're building a set of commerce tools with messaging at the core, so we have things like – introduced things like carts on WhatsApp so people can find items that they want to buy in a catalog and place orders in the ads – I'm sorry, in the app. We've, I think, released some stats on that.

So we've got a variety of different efforts to just make WhatsApp a place where you can transact, and I think a lot of that's early but we're seeing promising early results.

Operator: Our next question is from the line of Aaron Kessler with Raymond James. Please go ahead.

Aaron Kessler: Yes, hi guys. Thanks. First, maybe just on the CapEx reduction, can you just comment on that and the reasons behind that? And just maybe how should we think about the other revenue linearity? Should we expect kind of less hardware in Q3 or Q2 and Q3, and kind of what – how should we think about that typical linearity of other revenues?

David Wehner: Yes, I think on both those fronts, I think on the CapEx side it's really a question of better visibility on the timing of our large data center builds. And so, I think it's just as we've kind of done our kind of re-forecasting on where we think expenses are going to land on the CapEx front, this is the update on where we think a better range of where we think it's going to land in the year.

The second question was on, oh, hardware linearity. Yes. I mean, we're right now comping against quarters where Quest 2 was not launched, so that launched in October of last year.

So I would expect that we'll benefit as we're still lapping quarters where Quest 2 wasn't launched, but it is a – it is a product that's going to have some sort of life cycle. And when you start having the second holiday season with it, I think we'll just have to see how it does, but we're certainly pleased with the sustained strength we've seen thus far.

Aaron Kessler: Got it. Thank you.

Deborah Crawford: Operator, we're going to take one last question.

Operator: Thank you. Our last question will be from Ron Josey with JMP Securities. Please go ahead.

Ron Josey: Great. Thanks for taking the last question. Definitely appreciate it. So Dave, I wanted to follow up on the pricing commentary. I think you talked about just demand being stronger than expected in the quarter, and you highlighted SMBs drove much of the strength in commerce.

And so, maybe Jason asked this a little bit different with cohorts, so I wanted to ask just about demand and wanted to see if these newer – these SMBs are newer businesses that were brought on by the pandemic or perhaps existing SMBs that are spending more is point one.

And then maybe just another question just on the 30 percent increase on pricing. Can you just talk about the monetization here? Is it more – are Stories closing the gap that might be driving that or is it still just the traditional feed and everything else? Thank you.

David Wehner: Sure, I can take that. I don't know, Susan, you might want to take the gap question on Stories. In terms of what is driving sort of the overall -- the overall strength, it is - - it is broad based across the advertizing base that we have. So it includes our large advertisers who have been with us a long time.

We've seen particular strength in smaller and mid size that many of those advertisers have also been with us. I don't have the specific breakdown on sort of people who are with us pre and post pandemic. But we're seeing kind of a fairly -- really across different verticals really good strength.

If we had to call out one vertical like we said, we'd say it was commerce. But yes, I think when we look at 2021 the outlook is really driven off of pricing rather than impression growth. On the impression front, we are -- we're seeing, I think, slower -- some softness just due to the -- a couple of different factors.

One is rolling off of the strong engagement trends that we had with COVID. The second is the shift to video, which has a lower relative impression load than things like Feed. And then overall a bit of softness in Feed and that's related to competition from Video, both from -- both from our own products as well as others products.

And when you think about -- you think about the pricing growth, it's really just the -- it's just the really strong demand that we're seeing. And then Susan, you might want to comment about what we're doing on the Stories front.

Susan Li: Yes, relatively speaking in terms of the impact on pricing, you're right that Stories, the mix shift is -- contributes to a small amount of the gap being closed but I think really the biggest driver is basically lapping the depressed prices from one year ago. So that's really the biggest driver of the 30 percent year over year growth in CPMs.

David Wehner: But we are seeing DR do better on Stories and we're seeing that gap close but it's still at a lower price than Feed.

Susan Li: And that's true actually on some of the other surfaces too, not just Stories but also Video, Explore, et cetera.

David Wehner: Yes. So generally the story is that Feed is the most mature product in terms of having had all of the optimizations and getting the benefit of price. But we've had experience over time as we introduced new formats in new areas like Video, like Stories, we'll be doing that in places like Reels -- trying to work to close that gap.

Ron Josey: Makes a lot of sense. Hard to understand softness in Feed when you're growing 30 percent. So it's a great quarter and congrats. Thank you guys.

David Wehner: Thanks.

Deborah Crawford: All right. Thanks everybody for joining us today. We appreciate your time and we look forward to speaking with you again next quarter.

David Wehner: Thanks, everybody.

Operator: This concludes today's conference call. Thank you for joining us. You may now disconnect your lines.