

Meta Platforms, Inc. (FB)
Fourth Quarter 2021 Results – Prepared Remarks
February 2nd, 2022

Deborah Crawford, VP, Investor Relations

Thank you. Good afternoon and welcome to Meta's fourth quarter and full year 2021 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.

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

Mark Zuckerberg, CEO

Hi everyone and thanks for joining today.

This was a solid quarter for our products and business. It was also an important one for our company. In October, we announced that "Meta" would be our new name and we laid out our vision for the metaverse. When we shared our plans at Connect, I said this is not something we're going to do on our own. The metaverse will be built by creators and developers, it will be interoperable, and it will touch many different parts of the economy. In the months since, it's been exciting to see lots of other companies share their own plans for the metaverse and how their experiences and products might show up too. And I look forward to partnering with a lot of them as we all work to bring this to life together.

If last year was about putting a stake in the ground for where we're heading, this year is going to be about executing. Today I'm going to discuss our seven major investment priorities for 2022: and they're Reels, community messaging, commerce, ads, privacy, AI, and of course the metaverse. These are the areas that we're putting a lot more talent and budget towards.

But before I get to that, I want to briefly touch on our Q4 results, which I know Sheryl and Dave are going to go deeper on. I'm proud of the work that our teams did here. We shipped products, our community continued to grow, and businesses of all sizes turned to us to help them reach people. But there are two things that I want to call out that are having an impact on our business.

The first is competition. People have a lot of choices for how they want to spend their time and apps like TikTok are growing very quickly. And this is why our focus on Reels is so important over the long-term. As is our work to make sure that our apps are the best services out there for young adults, which I spoke about on our last call.

The second area, and related to this, is that we're in the middle of a transition on our own services towards short-form video like Reels. So as more activity shifts towards this medium, we're replacing some time in News Feed and other higher monetizing surfaces. So as a result of both competition and this shift to short-form video as well as our focus on serving young adults over optimizing overall engagement, we're going to continue to see some pressure on impression growth in the near term. Now I'm confident that leaning harder into these trends is the right short-term tradeoff to make in order to get long-term gains. We've made these types of transitions before with mobile feed and Stories, where we took on headwinds in the near-term to align with important trends over the long-term. And while video has historically been slower to monetize, we believe that over time short-form video is going to monetize more like feed or Stories than like Watch – so I'm optimistic that we'll get to where we need to be with Reels too.

Ultimately, our continued success relies on building new products that people find valuable and enjoy using. And in a competitive marketplace, we're focused on understanding the areas that we need to deliver on for people and executing against this strategy.

Dave is going to share more on these impacts to the business in a minute. But before we get to that, I want to discuss our investment priorities for 2022.

The first one is Reels. It's clear short-form video will be an increasing part of how people consume content moving forward, and Reels is now our fastest growing content format by far. It's already the biggest contributor to engagement growth on Instagram and it's growing very quickly on Facebook too. As we continue to improve tools for creators, ranking for people watching, and as we roll out the product everywhere across the world, we expect that this will continue growing quickly. So looking ahead, we're investing in simplifying video across Instagram, building more great creative and monetization tools for creators, and helping more people discover and interact with relevant Reels.

The next investment priority is community messaging – which is about chatting with groups of people that you have something in common with, whether that's a shared community, interest or experience. We already run some of the world's most popular messaging platforms where people connect 1:1 or in groups with friends, family and colleagues. And we're seeing people increasingly want to share more things in messages that they would've previously maybe posted to feed. I think the popularity that we're seeing with apps like Slack in the workplace, or Discord or Telegram reflects this trend too. So we're going to help people on WhatsApp better organize their group chats and make it easier to find information for the communities that they're a part of – like parent groups or neighborhoods. And we're also building Community Chats on Facebook and Messenger for real-time conversations within those groups and communities.

I also want to call out business messaging too, since it's an area where there's real momentum. We estimate more than 1 billion users are connecting with a business account across our messaging services every week. And we're partnering with companies like Uber and JioMart to help people book a ride or have their groceries delivered right from a chat. And we're building new tools to make buying online

better for people and easier to manage for businesses. And we believe that this can be an important business for us in the years to come.

We're also making good progress on our broader commerce efforts. We already help a lot of businesses reach new and existing customers with personalized ads, and our commerce tools are an extension of that – it's a seamless way for people and businesses to buy and sell through our apps. Our strategy here since introducing Shops a year and a half ago has been to make it as easy as possible for people to make a purchase after discovering a new brand or product, without having to switch over to a browser or re-enter their payment info. Sheryl will share more about our progress here, including some of the success we saw over the holidays.

Next up is ads. With Apple's iOS changes and new regulation in Europe, there's a clear trend where less data is available to deliver personalized ads. But people still want to see relevant ads, and businesses still want to reach the right customers. So we're rebuilding a lot of our ads infrastructure so we can continue to grow and deliver high-quality personalized ads.

The next two investment priorities that I want to discuss focus on the infrastructure that underpins all our products. First is privacy. We've made huge investments in strengthening our approach to privacy, including rebuilding our privacy program and our privacy review process. We made updates to bring greater privacy to our products, including end-to-end encrypted backups and disappearing messages on WhatsApp, and end-to-end encrypted voice and video calling on Messenger. Over the next few years, we're focused on building out a major privacy infrastructure project that will encode our privacy commitments at a deeper level of our technical foundation to make them more durable and make product development faster in this evolving environment.

Now onto AI, this is one of the areas where we've routinely seen stronger returns on our investments over time than we've expected. Advances in AI enable a lot of the experiences that I've talked about so far – it enables us to deliver better ads to people while using less data; it's core to our safety and security work; it's meaningfully improved the relevance of Reels and overall content ranking in general; and it plays a big role in our commerce efforts.

Artificial intelligence is also going to play a big role in our work to help build the metaverse. We just announced our AI Research SuperCluster, which we think will be the world's fastest supercomputer once it is complete later this year. This is going to enable new AI models that can learn from trillions of examples and understand hundreds of languages – which will be key for the kinds of experiences that we're building.

Looking ahead, we're focused on further scaling our computing power and transforming our AI infrastructure through advances in foundational research, as well as improvements to data center design, networking, storage, and software.

Now the last investment priority here is the metaverse. We're focused on the foundational hardware and software required to build an immersive, embodied internet that enables better digital social experiences than anything that exists today.

On the hardware front, we're seeing real traction with Quest 2. People have spent more than \$1B on Quest store content, helping virtual reality developers grow and sustain their business. We had a strong holiday season and Oculus reached the top of the App Store for the first time on Christmas Day in the

US. We're working towards a release of a high-end virtual reality headset later this year and we continue to make progress developing Project Nazare, which is our first fully-augmented reality glasses.

As for software, Horizon is core to our metaverse vision. This is our social VR world-building experience that we recently opened to people in the US and Canada. And we've seen a number of talented creators build worlds like a recording studio where producers collaborate or a relaxing space to meditate. And this year, we plan to launch a version of Horizon on mobile too, that will bring early metaverse experiences to more surfaces beyond VR. So while the deepest and most immersive experiences are going to be in virtual reality, you're also going to be able to access the worlds from your Facebook or Instagram apps as well, and probably more over time. This will enable us to build even richer social experiences where you can connect with friends in the metaverse whether they're in VR or not.

We're also focused on avatars, which will be how you represent yourself in Horizon and across other developers' experiences in the metaverse. In December, we rolled out our Meta Avatars SDK to all Unity developers on Quest, Rift and Windows-based VR platforms, letting developers bring Meta Avatars to their own VR experiences. We just announced an update that lets you further customize your avatar to better express yourself – and we're introducing digital clothing too, starting with an NFL partnership so you can cheer on your favorite team. You can use your avatar across Quest, Facebook, Instagram and Messenger. So it serves as another bridge between our 2D social apps and 3D immersive virtual reality experiences. We have a bunch of work ahead to make avatars as expressive and high-fidelity as they need to be to fully represent us and help us feel present with one another. But I am very excited for the advances that we're making here.

Making meaningful progress across all seven of these areas is going to improve the services we offer today and will help power a social, intuitive, and entertaining metaverse, where people, businesses and creators can all thrive. This fully realized vision is still a ways off, and although the direction is clear, our path ahead is not perfectly defined. But I'm pleased with the momentum and the progress that we've made so far and I'm confident these are the right investments for us to focus on going forward.

2022 is the first page of the next chapter for our company. I'm grateful for all the talented teams at Meta and our partners for executing on this important work. And of course for all of you who are on this journey with us. And now, here's Sheryl.

Sheryl Sandberg, COO

Thanks Mark, and hi everyone.

Our total ad revenue in Q4 was \$32.6B, which is up 20% year-over-year. The close of the year also marked the first time our business generated more than \$100B in annual revenue. I want to congratulate our teams and thank our partners for helping us reach this milestone.

Throughout 2021, we saw solid growth, which continued in Q4. But there were a number of dynamic factors that created headwinds for us this past quarter, in addition to those Mark described around competition and our shift to short-form video. We were lapping a period of strong demand in 2020 that benefited from very strong growth in online commerce, which has since slowed. Q4 was also the first holiday season after Apple's iOS changes, which have had an impact on businesses of all sizes – especially small businesses who rely on digital advertising to grow. This will continue to be a factor in 2022.

We've also heard from advertisers about other macro trends that contributed to the headwinds in Q4, including global supply chain disruptions, labor shortages, and inflationary pressures. A number of industry reports have pointed to people shopping earlier in the holiday season to avoid potential supply chain issues and shipping delays. This is in line with the behavior we saw from advertisers, many of whom frontloaded their spend earlier than usual.

Mark talked about 7 areas of investment. I'd like to talk about our progress in three of those: ads, commerce and messaging.

First, ads. Like others in our industry, we've faced headwinds as a result of Apple's iOS changes. As we described last quarter, Apple created two challenges for advertisers. One is that the accuracy of our ads targeting decreased, which increased the cost of driving outcomes. The other is that measuring those outcomes became more difficult.

These challenges are complex and interrelated. We're working to try and improve things, for example by making progress in closing the underreporting gap for iOS web conversions, and by introducing tools like our Aggregated Events Measurement solution to deliver better insights for advertisers. These efforts will help to mitigate some of the challenges, but we expect the overall targeting and measurement headwinds to moderately increase from Apple's changes and from regulatory changes in Q1 and throughout 2022.

On the shift to short-form video, I want to emphasize that while we're going through a transition, we're optimistic. Right now, Reels monetizes at a lower rate than Feed and Stories, but we expect this to improve over time. We've made successful transitions before – the shift from web to mobile, and then another shift from Feed to Stories. We have a playbook here. The experience we have from monetizing Stories is directly applicable, so we're not starting from scratch. We think that over the long term this shift will be a success for us and our partners too.

Second, commerce. We launched a number of new tools in Q4. We released new features like ratings, reviews and community replies to product questions, and significantly improved Checkout stability. We brought Shops to Groups, and we started testing Live Shopping for creators – an early glimpse of the immersive shopping experiences that will be possible in the metaverse.

Our commerce strategy remains focused on three areas: continuing to be the best place for advertisers to find customers and get strong ROI; making it easier to sell on our platform; and improving the customer experience. We still have a lot of work to do compared to other mobile and web shopping experiences, but we're seeing promising early signs. It's great to see businesses and consumers using social and immersive shopping experiences like Product Tags, Drops, and Live Shopping.

A good example is The Laundress, a premium fabric care and home cleaning brand from Unilever that wanted to build awareness of a new line it developed with the musician John Mayer. In November, they launched exclusively on Instagram for 24 hours, and hosted a Live Shopping event: a conversation between John Mayer and Laundress co-founder Lindsey Julia Boyd, where people could buy the new products as they talked about them live. The hour-long event generated more than \$40,000 in sales.

Overall, we're pleased with the engagement we saw with our commerce tools over the holiday season and view Q4 as a promising milestone in our multi-year journey.

Third, business messaging. Our focus is on helping businesses and consumers connect. Our largest monetization effort is Click to Messaging ads, where you click on an ad in your Facebook or Instagram feed and it opens a chat with the business in Messenger, Instagram Direct or WhatsApp. It's a great way for businesses to drive engagement. And we've seen lots of demand from consumers who want to use our messaging apps for everyday services like utilities, financial services, education and travel.

In Q4, we expanded the types of information people can choose to receive from businesses and the formats in which they can interact. We're continuing to invest in new tools to make it easier for people to get help and make purchases right from a chat. More than 150M users globally now view a business catalog on WhatsApp each month. And new features like 'Collections' on WhatsApp help businesses organize their products and make it straightforward for people to find things to buy.

As we enter 2022, our focus is where it has always been: building products that help people connect and businesses grow. We're making long-term investments to evolve our business and continue to drive real value for our partners. In the coming year, we'll continue to invest in things that improve ad performance for our clients, in short-form video like Reels, and in making the commerce experience better for consumers and marketers on our platforms.

As ever, I'm grateful to our partners around the world – big and small – who we learn from every day. And to our teams at Meta who work so hard to help businesses through the holiday season and beyond.

Now, here's Dave.

Dave Wehner, CFO

Thanks Sheryl and good afternoon everyone.

As we announced in October, beginning this quarter we are reporting revenue and operating income in two segments: Family of Apps and Reality Labs. I will begin by discussing our consolidated results before moving to segments and ending with our outlook. All comparisons are on a year-over-year basis unless otherwise noted.

We delivered solid results in the fourth quarter, ending a strong year for our business as full year 2021 total revenue grew 37% to nearly \$118 billion.

Q4 total revenue was \$33.7 billion, up 20% or 21% on a constant currency basis. Unlike the first three quarters of 2021, we experienced a currency headwind in Q4 and had foreign exchange rates remained constant with Q4 of last year, total revenue would have been about \$307 million higher.

Q4 total expenses were \$21.1 billion, up 38% compared to last year. In terms of the specific line items:

Cost of revenue increased 22%, driven primarily by Reality Labs hardware costs, core infrastructure investments, and payments to partners.

R&D increased 35%, driven primarily by hiring to support Family of Apps and Reality Labs as well as increased Reality Labs R&D operating costs.

Marketing & Sales increased 34%, mainly driven by marketing spend and hiring.

Lastly, G&A increased 107%, driven primarily by legal-related costs and employee-related costs.

We added over 3,700 net new hires in Q4, the majority in technical functions. We ended the quarter with over 71,900 full-time employees, up 23% compared to last year.

Fourth quarter operating income was \$12.6 billion, representing a 37% operating margin.

Our tax rate was 19%. Net income was \$10.3 billion or \$3.67 per share.

Capital expenditures, including principal payments on finance leases, were \$5.5 billion, driven by investments in data centers, servers, network infrastructure and office facilities.

Free cash flow was \$12.6 billion. We repurchased \$19.2 billion of our Class A common stock in the fourth quarter and we ended the quarter with \$48.0 billion in cash and marketable securities.

Moving now to our segment results.

I'll begin with the Family of Apps segment.

Q4 Total Family of Apps Revenue was \$32.8 billion, up 20%.

Q4 Family of Apps ad revenue was \$32.6 billion, up 20% or 21% on a constant currency basis.

On a user geography basis, year-over-year ad revenue growth was strongest in Asia Pacific at 31%. Rest of World, Europe, and North America grew 28%, 20%, and 15%, respectively. Currency was a modest headwind in all international regions.

In Q4, the total number of ad impressions served across our services increased 13% and the average price per ad increased 6%.

Impression growth was primarily driven by Asia Pacific and Rest of World, while impressions in North America declined 6% year-over-year. On a global basis, impression growth benefited from ad load increases and user growth. This was partially offset by engagement-related headwinds as we faced increased competition for people's time and a shift of engagement within our apps to video surfaces like Reels, which show fewer ads than Feed or Stories today.

Pricing growth was broad-based across regions. Worldwide pricing growth slowed from the third quarter as we lapped stronger growth in the year ago period and faced currency headwinds. Pricing was also negatively impacted by advertisers facing challenges from macroeconomic factors and measurement and targeting headwinds.

Family of Apps other revenue was \$155 million, down 8% due to a decline in payment revenue earned from games.

Family of Apps expenses were \$16.9 billion, up 35% due to higher legal-related costs, employee-related expenses, marketing, infrastructure-related costs and payments to partners.

Family of Apps operating income was \$15.9 billion, representing a 48% operating margin.

We estimate that approximately 2.8 billion people used at least one of our Family of Apps on a daily basis in December, and that approximately 3.6 billion people used at least one on a monthly basis.

Facebook daily active users were 1.93 billion, up 5% or 84 million compared to last year. DAUs represented approximately 66% of the 2.91 billion monthly active users in December. MAUs grew by 115 million or 4% compared to last year.

Facebook user growth was impacted by a few headwinds in the fourth quarter. In Asia-Pacific and Rest of World, we believe Covid resurgences during prior periods pulled forward user growth. User growth in India was also limited by an increase in data package pricing. In addition to these factors, we believe competitive services are negatively impacting growth, particularly with younger audiences.

Within our Reality Labs segment, Q4 revenue was \$877 million, up 22%, driven by strong Quest 2 sales during the holiday season.

Reality Labs expenses were \$4.2 billion, up 48%, driven by employee-related costs, R&D operating expenses and cost of goods sold.

Reality Labs operating loss was \$3.3 billion in the fourth quarter. For the full year 2021, Reality Labs operating loss was \$10.2 billion.

Turning now to the outlook.

We expect first quarter 2022 total revenue to be in the range of \$27-29 billion, which represents 3-11% year-over-year growth. We expect our year-over-year growth in the first quarter to be impacted by headwinds to both impression and price growth.

- On the impressions side, we expect continued headwinds from both increased competition for people's time and a shift of engagement within our apps towards video surfaces like Reels, which monetize at lower rates than Feed and Stories.
- On the pricing side, we expect growth to be negatively impacted by a few factors:
 - First, we will lap a period in which Apple's iOS changes were not in effect and we anticipate modestly increasing ad targeting and measurement headwinds from platform and regulatory changes.
 - Second, we will lap a period of strong demand in the prior year and we're hearing from advertisers that macroeconomic challenges like cost inflation and supply chain disruptions are impacting advertiser budgets.
 - Finally, based on current exchange rates, we expect foreign currency to be a headwind to year-over-year growth.

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

Turning now to the expense outlook.

We expect 2022 total expenses to be in the range of \$90-95 billion, updated from our prior outlook of \$91-97 billion. Our anticipated expense growth is driven by investments in technical and product talent and infrastructure-related costs.

We expect 2022 capital expenditures, including principal payments on finance leases, to be in the range of \$29-34 billion, unchanged from our prior estimate. Our planned capital expenditures are primarily driven by investments in data centers, servers, network infrastructure, and office facilities. As we discussed previously, this range reflects a significant increase in our AI and Machine Learning investments, which will support a number of areas across our Family of Apps. While our Reality Labs products and services may require more infrastructure capacity in the future, they do not require substantial capacity today and, as a result, are not a significant driver of 2022 capital expenditures.

Onto tax. Absent any changes to U.S. tax law, we expect our full year 2022 tax rate to be similar to the full year 2021 rate.

Separately, today we announced that our Class A common stock will begin trading on NASDAQ under the ticker symbol 'META' in the first half of 2022. The new ticker symbol aligns with our rebranding from Facebook to Meta.

In closing, 2021 was a strong year for our business and an important year for the company as we aligned our corporate identity with our long-term ambition to build the next generation of online social experiences. We are investing aggressively in 2022 to support our product road map as we work to deliver new and engaging experiences for people and support the businesses and creators who rely on our services.

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