

Meta Platforms, Inc. (FB)
Fourth Quarter 2021 Follow Up Call
February 2nd, 2022

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 the Meta Fourth Quarter and Full Year 2021 Results Follow Up Q&A call.

All lines have been placed on mute to prevent any background noise. To ask a question, please press the one and then the number four on your telephone keypad. This call will also be recorded. Thank you very much. Ms. Deborah Crawford, Meta Vice President of Investor Relations, you may now 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 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 certain 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 back over to the Operator for the first question.

Operator: Thank you. We will now go to Q&A. To ask a question, please press the one and then the number four on your touchtone phone. Please pick up your handset before asking your question to ensure clarity. If you are streaming for this call, please mute your computer speakers. Our first question is from Colin Sebastian with Baird. Please go ahead.

Colin Sebastian: Hey, guys. Thanks for taking the questions. I guess actually a couple of bigger picture questions from me that I didn't really hear get addressed on the -- on the main call.

On the commerce initiatives, the customer experience part of shopping seems really important, so I was just kind of hoping to understand how product discovery is planned to evolve on the apps over time. I think I get the ad formats and some of the monetization side.

But things like search are obviously very important to other platforms, curious if that plays a role in addition to transactions and payments happening on the platform. Then I have a follow-up.

David Wehner: Yes, so on commerce, we saw good traction in the fourth quarter with sellers leveraging our suite of commerce products, including things like product tags, live shopping, drops and shops.

So we were pleased with -- we were pleased with where we were in the fourth quarter. It's still very early. And it's a key priority and it's an area of investment this year.

We're focused on building out a few key areas, building the core features people expect when buying something online, just making it easier for businesses to sell using our services, and then providing a differentiated shopping experience.

So overall, I'd say early but good progress in Q4. Some of the things that we did on the buyer front was we launched ratings and reviews with third-party providers.

We improved storefront navigation by just making it -- by expanding the ability to browse and filter by category. So that's part of what you were getting at, Colin, of just making it easier to find stuff that you care about.

We launched community replies for people to get answers to their questions about products. So we're trying to do stuff to make the buyer experience better and we've made some progress in Q4.

And then for sellers, we improved the checkout stability during the holidays. We launched the Shopify Checkout API, which synchs real-time pricing and catalog information between Meta and Shopify. So we felt like we made some good progress on both the buyer and seller front in Q4.

Colin Sebastian: OK. Yes, that's helpful. Obviously, you have a lot going on there. And then a Metaverse question -- and I think Mark did talk about actions that other companies are taking with their own Metaverse strategies and the desire to partner with some of those companies.

And a lot of that development, some of the consolidation, a number of their product -- strategic product plans involve games, and virtual worlds and interactive entertainment. And I'm curious, is that an important part of Meta's Metaverse platform to have that kind of large-scale gaming environment? Is that necessary to be successful in the Metaverse?

David Wehner: Yes. I mean, gaming is clearly an important vertical today for Quest. It's one of the major verticals for our early product in the Metaverse space, so we're definitely seeing a lot of adoption around gaming and that makes up for a big portion of the billion dollars of content on the platform today, on the Quest platform.

But obviously it's more than gaming. We're seeing things like Supernatural with the – with workouts at home and subscriptions for workouts. We're making progress on things like Horizon Workrooms, which is about giving you a glimpse of how VR can deliver a greater sense of presence at work, and we're using that a lot internally. So, absolutely gaming is a fundamental part of the vision but it's not the only component.

Susan Li: I will say gaming is an important part of the vision for young adults also.

David Wehner: Yes.

Colin Sebastian: Got it. OK. Thanks very much.

David Wehner: All right, thanks Colin. France, you got the next question?

Operator: Our next question from Michael Nathanson with MoffettNathanson. Please go ahead.

Michael Nathanson: Thanks. Hey David, I have a couple for you, I'll roll through them. Your call out of Google and Apple, the question I have for you is last week we were surprised that Google decided to shut federated learning down.

That, we thought, was going to be a solution that other people would use, and they blamed privacy concerns as a part of it. Are you getting any regulatory feedback or pushback on privacy with your solution aggregated events measurement?

And the second question then is we also wonder, how does Apple – what's Apple's approach and have they approved of these aggregator approaches or measurement given their privacy stance? And then I have another one after that, thanks.

David Wehner: Yes. We certainly saw that Google changed some of their approach. We're supportive of collaborating with the industry on all the different proposals that aim to deliver privacy protected personalized advertising. We think, in general, the approach towards aggregated – the aggregated approach is one that's consistent with the iOS restrictions.

And so we do think there's opportunities to continue to improve targeting and measurement with that in mind. So we're working both with our own privacy enhancing technologies to minimize the amount of personal data processed while still allowing us to show relevant ads and measure ads effectiveness.

And then we're clearly not just doing that in the vacuum, we're working with other parties and other industry participants to have a standard for private and aggregated attribution measurement. So we do think that there's approaches that are very much compliant with Apple's stance on privacy.

They're not going to be as effective initially as the prior regime, but we do think that we can continue to make these more effective over time. And as Sheryl called out, the larger campaigns, it's easier to use the aggregated – the aggregated tools. As you get to smaller businesses, that's where it's a little bit more challenging.

And then there's also the delays in the data processing as well as the aggregated, which we do think has some impact, especially in very dynamic periods like the holidays.

Michael Nathanson: OK, and I guess just on the mathematical impact, you call that \$10 billion in '22. It sounds like it's going – it's impacting more e-commerce or retail than we first thought. How do you disaggregate between maybe economic impacts, supply chain, and IDFA? So when you give us that number how much – how much do you factor in other potential macro or other headwinds to the impact?

Susan Li: I mean, it's hard to parse out all of the demand-side dynamics perfectly, but we have modeling in terms of the sort of impact on advertiser value and on revenue between the sort of stakes of the world where you're able to use data in the way that we were before ATT and in a way that we can after, so that gives us some sense of how to – how to think about the magnitude of that.

The other macro factors that you cited are candidly harder to quantify precisely, and a lot of it is coming through what we hear from advertisers in the market now.

Michael Nathanson: OK. Thank you, guys.

Operator: Our next question is from Ross Walthall with Cleveland Research. Please go ahead.

Ross Walthall: Hey, guys. Thanks for the opportunity. A couple questions. The first was just on the progress that you're making towards closing that 15% conversion gap we talked about last quarter.

I think you said previously you wanted to get half of that back by year-end. I guess the question is did you hit that goal, and what are the next steps needed to continue closing that gap? And then I had one more.

Susan Li: Yes. Great question. So that particular sort of underreporting gap we called out, we did succeed in closing approximately half of it, but it was really a very specific area that we were underreporting, and it was a very small slice of the overall – the overall revenue landscape.

Fundamentally there are still significant targeting and measurement headwinds that we are facing because of the ATT changes, which significantly restrict our ability to use data. And there are – there is some feedback loop with between the targeting and measurement pieces there also in terms of our inability to sort of – to measure conversions and business outcomes in the way that we used to also makes it harder for us to subsequently target ads to the best users -- the best ads to the best users.

Ross Walthall: Got it. And then the other one was just around the Reels monetization ramp. Kind of two filters on this. One is just are the ad formats ready to go and already built? Are you still innovating there?

And then two, is getting buy-in from advertisers a required step to get more monetization of Reels, or can you ramp this up through things like auto placements that can start to steer more ad purchasing into that inventory? Thanks.

Susan Li: We are absolutely still innovating on ad formats for Reels similarly to when we've scaled up any organic surface that people are spending a lot of time on. We spend a lot of time making sure that the ads really make sense for that surface. That happened with transition to Mobile. That happened in the transition to Stories. In both of those cases, we're very pleased with our ability to monetize those surfaces at scale.

With Reels, we are similarly focused on understanding what ads formats look the most native, perform the best, testing out video formats, that sort of thing.

So we are early I think in the format innovation stage. Having said that, we also know we have placement optimization that when we have formats that work we're able to also deploy ads more broadly across other surfaces, but again on Reels right now, early in the formats and ad -- early in ad load. We're really focused on getting the user experience right above all.

Operator: Our next question is from the line of Brent Thill with Jefferies. Please go ahead.

James Heaney: Great. Thanks for taking my questions. This is James on for Brent. Can you just talk through why your DAU's declined by 1 million this quarter compared to the 85 million that you added in the first nine months, realize you're facing more pressure from TikTok and other services but it just looks pretty pronounced. Is there anything specific that you'd call out? And then I have one more follow-up.

David Wehner: Yes, Brent, I think you got a couple different factors there. So when you look at U.S. and Canada, those have sort of bounced around. So I don't think much new on that front. Those are fairly saturated markets.

We've -- we have been experiencing a lot of growth in Facebook in APAC and the Rest of World, so it's probably worth calling out some trends there that impacted growth in the fourth quarter. So the factors that we talked about on that front were -- we believe that some growth was pulled forward by COVID into prior quarters within markets like India and Latin America.

Those had COVID resurgences early in 2021 and at least our experience is very clear that COVID lockdowns and the like really kind of surge engagement on Facebook and Instagram. So you do see usage go up in those sort of COVID resurgence periods. So that's one of the impacts.

The other thing that we saw is India's been a particularly strong market for us in terms of growth and we did see headwinds from increased cost of data plans for people in India and I think that's kind of an industry wide issue.

And then yes, like you said, we're seeing an impact from strong competition, particularly from TikTok, which we do think is an impact as well.

James: Great. And then just one more follow-up. As we think about commerce, how important is it for you to ultimately bring more of your shopping capabilities on platform to mitigate the use of off platform signals for ad targeting and measurement and what are you doing to get more businesses to ultimately fully integrate with you guys? Thanks.

David Wehner: Well, we do think that it's -- you know it's certainly helpful in terms of being able to optimize when you're able to transact on platform. But we're really focused on both making commerce a good experience for both buyers and sellers on the platform and really focusing on that experience first and foremost.

In terms of the mitigations to make ad performance better in this new environment where we're more restricted on data use, I think commerce is fairly -- it's there but it's further down on the list than just getting better at aggregated events measurement and targeting.

Susan Li: Yes, it's one of, I would say, multiple areas we're invested in, especially across the long term, I think, to make sure that we're dealing with the most platform challenges.

Operator: Our next question is from Stephen Ju with Credit Suisse. Please go ahead.

Stephen Ju: OK. Thank you. So I think Mark did a great job just kind of outlining how close to the beginning versus how close to the end some of these initiatives are. So just wondering if you can kind of talk about where your efforts with image recognition and video contextualization are?

Are we closer to the beginning versus closer to the end there because it seems like you first -- you guys first announced sort of that [Café To Go] product about four or five years ago and it seems like the additional piece to run a business like Reels would be to, I guess -- especially from a brand safety consideration as well as a content recommendation consideration you'd probably need to know what type of content people are putting on the site.

So just wondering where you are in development of that technology? And whether -- you know, am I guess over indexing terms of thinking that that's an important piece of technology that you guys need to own? Thanks.

David Wehner: Yes, Stephen, thanks. And I'll take this. You know, I think the most important thing that Mark alluded to was just, focused on getting the flywheel going with more

content coming into the short form video, getting more user engagement around the video and using that to then fuel the AI and optimization engines on that front.

So I think there we've got a lot of creators that use the platform of both Instagram and Facebook, so we think there's a good basis for growing that flywheel. But as Mark said, TikTok is clearly ahead of us in terms of that content flywheel as it relates to short form video.

So you know, though we're seeing tremendous growth in Reels, TikTok's also growing off a big base as well. So you know, it's definitely a competitive battle and we think we've got the right set of technologies and we think we've got the fundamentals for continuing to fuel the flywheel. But I think it's more about kind of bringing content in and then using our -- using the signals to rank and optimize.

Stephen Ju: Got you. And from a housekeeping perspective, like in as much as you guys have like rev share payouts to some of these content creators, where do you think that's going to get booked? Is that going to be in COGS or sales & marketing?

David Wehner: Yes, that generally gets books in COGS.

Steven Ju: OK. That's it. Thank you.

Operator: Our next question is from Richard Greenfield with LightShed Partners. Please go ahead.

Richard Greenfield: Hi. Thanks for taking the question. Could you just sort of give us -- when you're talking about Reels, I just want to come back to this. When you think about sort of the incremental headwind in Q1 2022 versus Q4 2021 from the transition on impression growth, you know, it seems like there's such a significant step function in the headwind quarter-to-quarter. Maybe just help us understand the relative impact in the two quarters?

David Wehner: Yes, I mean, when you think about the headwinds there's both demand headwinds and supply headwinds. So on the demand front, you know, one of the things that we saw was a softening in ad demand in the later part of the fourth quarter, and that's factored into our first quarter outlook. So we saw definitely stronger ad demand in the beginning of the fourth quarter.

We think that there was a more -- more of a sort of push forward on advertising from categories like e-comm earlier in the quarter, and that tapered off towards the end of the quarter. So there's just some demand softening that we saw in some of those categories that's a factor in our outlook. You know, we think that's both targeting related and related to sort of macro headwinds. But it's hard to disaggregate those precisely.

And then, you know, in addition to that we're seeing the impression softness from the area that we talked about which is competition with TikTok as well as the shift

to showing more video -- short form video, which also pressures our impression growth, given the relatively low ad load we have in Reels.

Richard Greenfield: And then, Dave, just philosophically like you've been on these calls for a long time and when you think about sort of just highlighting TikTok. And, I mean, I can't even tell you -- I probably should have counted the number of times you used the word TikTok during today's call. Like, TikTok has never been part of your sort of messaging before. Why is it such a dramatic change in the focus quarter-to-quarter?

David Wehner: Well, we've been emphasizing the investment in Reels for several -- for several quarters now, Rich. So, I think it's clearly a big and strong competitor in the market. They've continued to see good compounding growth. So, they've got great product market fit.

So, I think it's just reflecting the overall competitive environment. People have a lot of choice when it comes to where they spend their time and that's clearly a competitor in the marketplace that's doing -- that's doing well. And we're responding to that with a strong offering with Reels. So, I think that's really the reasoning for the messaging that you're seeing on this call.

Richard Greenfield: Thanks for the honesty. Thank you.

Operator: Our next question is from Justin Patterson with KeyBanc. Please go ahead.

Justin Patterson: Great, thank you. A big picture one if I can? How should we think about this capital expenditure cycle versus prior ones? It seems like relative to the mobile web the opportunities around Web3 and the Metaverse would require more infrastructure than in the past. So, just trying to think through how long elevated levels of spend could last. Thank you.

Susan Li: Yes, we are very focused on making sure we're investing in infrastructure ahead of future growth to make sure that we have capacity to meet all of our future needs. And at present sort of that's more focused around the needs within the Family of Apps.

As our community grows, as the set of features and the products expand, we want to make sure that we have capacity to meet those and we have appropriate redundancies as needed across regions also.

But, then we're also significantly increasing our planned investment in A.I. and machine learning and a lot of that investment is dedicated to the work that we're doing on ads to improve ads ranking and relevance, also on organic content for ranking and recommendations, to how our Feed and Reels and other organic experiences.

So, we're not sharing a specific outlook beyond 2022, but these are, I think, these are meaningful investments that reflect our long-term focus in this area.

David Wehner: France, I think you can go to the next question.

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

Aaron Kessler: Yes, hi. I got a couple quick ones. Maybe just during the quarter do you see advertisers move to kind of top of the funnel advertising? You hear that a little bit given IDFA. And then, any updates on how we should be thinking about WhatsApp monetization? Thank you.

Susan Li: In terms of sort of where we are in the marketing funnel, I would say DR continues to be the vast majority of the business and it's been the primary driver of revenue growth even in spite of the headwinds from factors like Apple's ATT change. Now brand also grew in the quarter, but I -- I'm not -- I don't know if we've heard a lot qualitatively about advertisers moving to the top of the funnel.

Dave Wehner: And then in terms of -- in terms of WhatsApp monetization, broadly I would say business messaging and messaging is a -- it's actually a very strong business for us today with click-to-messaging ads, so that's a multibillion dollar business today where people are buying ads on Facebook and Instagram, and those ads are directed towards launching messages in Messenger and WhatsApp.

So we're seeing a very strong growth in click-to-messaging ads, and that's been good -- a good source of growth, so we're seeing kind of good traction there. So that's the focus in the near-term on messaging. Over the long-term we think there'll be other opportunities with WhatsApp and Messenger.

Justin Patterson: Great. Thank you.

Operator: Our next question is from Dan Salmon with BMO Capital Markets. Please go ahead.

Dan Salmon: Hey. Great. Thanks for taking the questions. Dave, could we review just the comments on the incremental targeting and measurement headwinds? You noted the timing of iOS 14.5 impacted the back half and then some smaller elements, you mention iOS 15 among them, have followed that.

Does that suggest that your peak headwinds for the year should come at the midyear point when you lapped ATT and then some of the smaller incremental impacts linger?

And then just related to that is Android's sort of lighter deprecation of their mobile identifier that began at the end of the year. Is that included in your incremental headwinds? Like you said, you mentioned iOS 15 but not that.

Dave Wehner: Yes. So I think you've got the general -- the general kind of comments that we made correct there, Dan. I think what we're saying is we're continuing to see incremental, additional headwinds from things like iOS 15, other platforms, regulatory.

Those – in terms of magnitude and step change are not as significant as the iOS 14.5 rollout -- which was most significant, which was mid last year -- and really impacted our growth rates in Q3 and Q4, and affect our Q1 guidance as well.

We're not providing specific guidance for 2022, but I think the point that those headwinds will be particularly strong as it relates to year-over-year growth in the first half of the year is correct.

Dan Salmon: Right, right. OK, that's great. And then maybe just one follow up. Back in 2018 you spoke to a mid 30% operating margin range for the company. Can you remind us is that comment still broadly in effect still?

Dave Wehner: We have not updated that, so that is not a -- that was something that we provided in 2018, and we're not -- we have not commented on target operating margins for the company going forward.

I would say as it relates to our 2022 margin outlook, we do expect revenue growth at a lower rate than expenses in 2022, so we do think that 2022 margins will be lower than 2021, but we're not providing a specific margin target for 2022. We're confident in the ROI of our long-term investments, but we are investing in long-term growth and not targeting a specific margin target in our model.

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

Operator: Very good. Then our last question is from Brian Fitzgerald with Wells Fargo. Please go ahead.

Brian Fitzgerald: Thanks for squeezing me in. Maybe, kind of, some nuanced or esoteric questions here, as you talk to regulators in the U.S. and the E.U. how do you think they're thinking about balancing consumer privacy versus the benefits to businesses of all sizes from effective targeted ads?

And I ask that -- the normal SMB mortality rate is something like 16%, maybe 20%. It's got to be higher with the pandemic. So is that weighing in here as well? And then one more on regulators, as we're talking about it. How are they thinking about the need to preserve competition in mobile ecosystems?

David Wehner: Brian, I think those are good questions and they're probably ones that would -- you could have a long debate over. I do think that regulators in general often have narrower mandates for specific issues.

So you might be talking to one regulator on one matter, let's say privacy, and another regulator on another matter as it relates to the business ecosystem. So I do think there's different groups that have different focuses -- foci, even within -- even within government.

So I think it depends on the country, the region, and what regulators are talking to as to what specific issue they're focused on, whether it be privacy or competition.

Brian Fitzgerald: Yes, OK. Thanks, Dave. Thanks, Deborah.

David Wehner: Yes. Thanks, Brian.

Deborah Crawford: Great, thank you. Thank you everybody for joining us today. We appreciate your time, and we look forward to speaking with you again.

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