Meta Platforms, Inc. (META)
Second Quarter 2022 Follow Up Call
July 27th, 2022

Operator: Good afternoon, my name is Dave and I will be your conference operator today. At this time, I would like to welcome everyone to Meta's Second 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 then the number four on your telephone keypad. This call will be recorded. Thank you very much.

Ms. Deborah Crawford, Meta'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 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 with that, I'd like to turn the call over to Dave.

Dave Wehner: Yes. Thanks, Deborah. I just thought I'd start with some opening comments. And we're pleased this quarter with the growth across the family. We now reach over 3.6 billion people a month across our services and that continues to grow. In particular, we're pleased with strong Reels growth is continuing to drive engagement on Facebook and Instagram and we talked about that a lot on the call and I'm sure we'll dive into that some on this follow-up call.

We're clearly in an economic cycle that's having broad impact on the digital advertising business and looks more challenging than it did last quarter. And that's the context for some of the guidance that we've given.

I'd also note that currency was a 4 percent headwind in Q2. And in the second quarter we'll be -- sorry, it was a 4 percent headwind on Q2 and on a constant currency basis revenue would have grown 3 percent against what was a very tough comp last year in the second quarter when we grew 56 percent year-over-year. And we expect the currency headwinds to be higher in Q3 based on current rates. So we're expecting a 6 percent currency headwind.

We're further reducing our expense growth in 2022 but we're still investing to be stronger when we come out of this cycle. And key investments that I'd highlight there are the ones that we're making in places like Reels and AI to position us to have a stronger ad business especially when the macro improves.

I also wanted to call out the pending CFO transition. I'm excited to be handing over the reins to Susan in November when I move on to my new role. Susan has been joining these calls for the last two years so all of you are familiar with her, as a familiar voice. But this is the first time she's joining as the future CFO. So I'm happy to have her with us yet again. And, as a reminder, I will be with all of you next quarter as well.

Susan?

Susan Li: Thanks, Dave. I've really enjoyed being on these calls for the last two years. These conversations are always really valuable for us to better understand how the analyst and investment community is thinking about the business. And I hope these calls are valuable for you too. I'm looking forward to many more of them.

Deborah Crawford: Great. Thanks, Susan. Operator, we'd like to open up the call for questions.

Operator: Thank you very much. We will now open the lines for a question and answer session. To ask a question press one then the number four on your touchtone phone. Please pick up your handset before asking your question to ensure clarity. If you are streaming today's call, please mute your computer speakers.

Our first question comes from the line of Tom Champion with Piper Sandler. Your line is open.

Tom Champion: Great. Good evening. Thanks so much for taking the question. I'm curious if you could give us a sense for Reels time spent as a percentage of total across the platforms? And I guess the reason why I'm asking is I'm curious if the 14 percent decline in pricing this quarter was mostly a function of FX and the macro deterioration? And if Reels time spent is only going to escalate from here on kind of like a multi-quarter or maybe multi-year process, is the majority of dilution in pricing from Reels substitution more in the future than a factor in the present?

David Wehner: Yes. Thanks, Tom. Let me just give you some sense on the pricing issue. I think that it's worth clarifying that pricing is impacted by the overall ad demand situation, and that's a confluence of macro and the headwinds from targeting. And then you've also got mix shift as we are growing more quickly with lower monetizing regions and formats so that Reels is part of that, but it's also a big impact of regional as well.

Susan Li: But I would expect that the macro and signal piece are the biggest contributors to kind of the impact on CPM. And certainly it's captured in our outlook.

Tom Champion: OK, thank you.

Dave Wehner: We can go to next question, Dave.

Operator: And that will come from Ron Josey with Citi. Your line is open.

Ron Josey: Great. Thanks, Dave. Hi, Susan. So I had two questions briefly. So Sheryl mentioned or highlighted three key things that were impacting topline growth, Dave, I think signal loss was the second. And I didn't quite understand her answer maybe to Doug's question around whether we're at pre-IDFA levels or what not. So can you just provide just some more details on do you think measurement has gotten back to pre-IDFA levels? Are we at that? Have we closed that gap? Anymore insights there and maybe Private Lift details would be interesting.

And then just a second question is around Reels monetization. Do you think that -- any reason to think maybe ad loads on Reels could be different than the core Feed or Stories? Thanks.

Susan Li: So to the first part of your question, Apple's IDFA changes remain a headwind to revenue and to things like measurement and targeting in Q2, but it was not a contributor to the sequential deceleration in year-over-year growth relative to Q1. And, in fact, we started to see a benefit to year-over-year growth throughout Q2 because we were lapping the increased adoption of iOS 14.5 from a year ago, and we'll get a further tailwind in Q3 as we lap the full first quarter of iOS impact. But that benefit has been really offset by the macro trends we discussed, by weaker advertiser demand, and that's all reflected in the Q3 outlook.

You asked a question about Private Lift. That is in beta, so it's pretty early. We don't have a lot to say about that specifically yet. It's just a measurement solution that we're developing using secure multi-party computation so that Meta and advertisers can share results without actually seeing each others' data.

Your second question…

Dave Wehner: It was on Reels monetization. So I think there's a lot of things that we will be learning about, what types of ad loads might be possible in Reels. There are different factors that will affect the ultimate monetization efficiency of Reels relative to formats like Stories and Feed. That will include what ad loads we can have in that format. It will also include what are the relative action rates of impressions in that format.

And it's still early. We're pleased with the progress that we're making. We don't -- we've been able to close the gap with Stories and Feed and that's due to the factors all working, I think, well in our favor. We're able to -- people go through a lot of impressions in Stories in a given amount of time so we're able to get a number of ad impressions per time spent with Stories. That's very effective.

Reels, I think will have similar dynamics but not exactly the same. And then we'll have to monitor how engagement with ads develops over time. We think we can certainly make good progress in closing the gap, whether we can be as successful as Reels -- sorry, as Stories remains to be seen. But we're certainly working to continue to close the gap and we are definitely seeing progress on that front.

Ron Josey: Great. Thank you, Dave. Thank you, Susan.

Dave Wehner: Thanks, Ron.

Operator: The next question comes from Deepak Mathivanan with Wolfe Research. Your line is open.

Deepak Mathivanan: Great. Thanks for taking the question. Dave, can you talk about how the macro is impacting different types of advertising in your business? You have said the majority of the revenue is performance in the past but given advertisers want to kind of go closer to the transaction more bottom funnel, curious the exposure and impact on your advertising revenues across maybe various types of objectives or campaigns between upper funnel and bottom funnel so we can kind of think about how this is playing out.

And then maybe second question quick, kind of like a housekeeping one. How much of the $2 billion reduction of the low end of the OpEx is sort of due to the loss reserve adjustments that you made in the second quarter versus the impact of slower hiring? Any way you can kind of help us with quantifying it? Thank you so much.

David Wehner: Hey, thanks, Deepak. And I think the one thing that we've seen because we've kind of looked at this data obviously pretty intensely, is that we're seeing a very broad base deceleration from Q1 to Q2 across verticals, advertiser sizes, and both the DR and brand segment. So there's not a concentrated deceleration in one particular vertical. So that's just with regards to the deceleration in growth from Q1 to Q2.

But year-over-year growth remains challenged in some of our larger verticals; places like ecommerce where we're lapping really strong results in the beginning of 2021 when we were still benefitting from COVID related, I think, engagement peaks and online activity peaks. So that's true for ecommerce, it's also true for gaming. So those are two verticals that are, I think, remain challenged in this environment. Those are also verticals that do have down market funnel activity where they're also impacted by things like the IDFA changes. So I think we're seeing the impact there.

Brand is a small part of our business so we're primarily -- you could think of it as primarily as in direct response. But we are seeing weakness in both brand and direct response.

Susan Li: And on your second question. The OpEx reduction reflects a number of things. The loss reserve adjustment is one discreet item and that's on the order of $472 million that'll be in the Q.

But in kind of the new -- the financial environment that we are in, we are also looking at meaningfully trying to slow headcount growth where it's appropriate and make sure we focus our resources and energy on our -- on the top priorities that Mark has outlined. And throughout the course of the year as you've seen our guidance come down, you've seen that dynamic play through as well.

Deepak Mathivanan: Great, thanks, Dave. Thanks, Susan.

Operator: Next question comes from the line of Justin Patterson with KeyBanc. Your line is open.

Justin Patterson: Great, thank you. Just around the CapEx and the narrowing of that for the year. Could you talk about some of the factors that drove that and as we think about just where you are in terms of increasing GPU intensity and the benefits of that manifesting toward products? Would love to hear any of the details, sounds like there's some early results in terms of AI driving better engagement, but curious to think of how that plays out going forward. Thank you.

Susan Li: Yes, you know the step-up in CapEx this year is really in large part driven by our AI/ML investments to power ranking and recommendations in the key priority areas like Ads, Reels, Feed, which I think Mark has talked about at length.

And you know, the infra plans do have a long time horizon, and so these are investments that we think are going to be important for many of the core experience we're focused on, and we believe they're worth making now even though this is a meaningful increase in our CapEx investment and we hope this will provide a meaningful tech advantage for us as we invest deeply in these areas.

So we are looking at ways to be more efficient in the way that we use hardware where that makes sense, and we're emphasizing efficiency kind of in our code development process. But you are seeing kind of the step-up in quarterly CapEx levels from -- Q2 from Q1, and we expect that to continue as we receive scheduled server deliveries and we start meeting different data centric construction milestones.

Dave Wehner: We can take the next question, Dave.

Operator: Yes, sir. That will come from Ross Walthall with Cleveland Research. Your line is open.

Ross Walthall: Thank you, appreciate the questions, guys. Just two questions. One, I know last quarter we talked about the CAPI Gateway for SMBs, I was just curious if you could talk to what the response has been, and any updates generally on CAPI adoption?

And then secondly, I know on the call Sheryl talked a good amount about AI solutions as being something that you guys were leaning into. What's been the initial feedback, the response from advertisers just on the willingness to trust modeled conversions and other AI-based tools?

Susan Li: On your first question, we've been pleased with both the growth and adoption for CAPI and CAPI Gateway. I think it's been a -- I think advertisers who used it have found, I think, that it performs quite well for them, and so I think that's been a meaningful part of our mitigation strategy to-date.

And then the second question was…

Dave Wehner: Yes, I can take that, Ross. So I think Sheryl talked about this a bit. But we're continuing to roll out advertiser solutions that make use of enhanced AI. So one example, in June is we launched Meta Advantage. And this includes new automated created templates designed to increase performance and save time and effort for advertisers in building Stories ads, so leverages AI can do that.

And I think Sheryl touched on this, but in May, we launched Advertising Lookalikes, and Advantage Detailed Targeting, which automatically increases audiences that are likely to improve performance with better targeting advertisers and achieving performance with higher efficiency at lower costs, and tests have shown that we've been able to lower the median cost per mobile app install by 6 percent with Advantage Lookalikes. So we're pleased with some the initial tests that we're doing there as we rollout these AI products for advertisers.

Ross Walthall: Thanks, and congrats on the new roles, guys.

Operator: Next question will come from the line of Rich Greenfield with LightShed Partners. Your line is open.

Rich Greenfield: Hi. Thanks for taking the question. Can you hear me?

Dave Wehner: Yes. Hey, Rich.

Rich Greenfield: Can you hear me?

Dave Wehner: Yes we can.

Rich Greenfield: Oh, sorry. I wasn't sure. I got some feedback, sorry. So well you've mentioned multiple times that engagement is increasing with Reels being additive. When you're talking about engagement increasing, are you talking sequentially, meaning overall time spent on Facebook Blue and Instagram is up sequentially in total, year-over-year, both? Any color on just what you mean when you're saying your engagement is improving.

And then I just have some -- a housekeeping point on 2023, but could you answer that first?

David Wehner: Yes. Rich, we're talking about a variety of different engagement measures, including there's just overall DAU and the trends that we're seeing on DAU as well as -- as well as engagement on some of the formats like Reels that we're seeing.

Rich Greenfield: So there's no comment on overall time spent within?

Dave Wehner: Yes, we're not-- we don't give overall time spent stats.

Rich Greenfield: OK, and then the second one is just with the revenue growth comments, obviously revenue growth is slowing because of all the things that you and Sheryl and Mark talked about, but how should we think about expense growth in 2023? Maybe margins is easier as well as CapEx, but I'm just trying to plan ahead for '23 and just any type of color of how we should be thinking about some of the changes you're making to '22 and how we flow that into '23?

David Wehner: Yes. We'll obviously update our guidance when we have the budget in view for '23, which is still being worked on internally. We have talked about the fact that headcount growth rates are going to be slowing down throughout the year, and that will be a leading indicator for expense growth in '23.

We're clearly working on bringing a lot of discipline into how we're allocating resources. Mark talked about that, really focusing on getting more from less. So we do expect that the growth rate in '23 will come down, but we have not put a number on that yet, Rich.

Rich Greenfield: OK. Thanks for at least trying to frame. I think the employee part at least helps give some color.

David Wehner: Yes. Thanks, Rich.

Operator: The next question comes from the line of Alan Gould with Loop Capital Markets. Your line is open.

Alan Gould: Yes. Thanks for taking the question. Just curious, are you seeing a big difference on the larger advertisers versus the long tail of advertisers in how they're adjusting to the ATT changes?

Dave Wehner: Yes. I think there's a couple things going on with that, Alan. One is we do know that it's really challenging for advertisers of all sizes to handle the ATT changes. We've seen -- we continue to see as we've seen over time that small businesses -- our business is -- gets more diversified over time in terms of our large advertising clients have grown more slowly than our big clients over time. That's been sort of a consistent trend as we've continued to grow our advertiser base.

And I don't think we've seen any big changes in that trend, so those smaller advertisers are clearly having a hard time adopting to the ATT changes. They also were not taking advantage of targeting and measurement as much as the larger advertisers. So we're seeing those large advertisers get impacted by the ATT changes and their ability to use data.

So I don't think there's one simple story there. I think it's -- I think it's really a broad-based impact and obviously the more sophisticated advertisers were hit pretty hard with these changes as well even though it's very hard for small advertisers to adopt -- to adapt to this new world.

Alan Gould: OK, that's helpful. Thanks, Dave.

Operator: And our next question comes from the line of Brian Fitzgerald with Wells Fargo. Your line is open.

Brian Fitzgerald: Thanks, Dave. Susan, congrats. Want to ask about the trans-Atlantic data transfers, you called it out again this quarter. And then the last few months we kind of felt there was a sense that we'd get an agreement between the E.U. and the U.S. Can you give us an update there from your perspective on where you stand? Maybe more broadly is there something about the way you guys run the business or your systems that would make it difficult or impossible to segregate or domain data from the E.U.?

David Wehner: Yes, hey, Brian. There's no -- I mean this is not -- the data transfer issue is not Meta specific. So it relates to how in general data is transferred for all U.S. and E.U. companies back and forth to the U.S. So we're pleased that the U.S. government and the European commission announced an agreement on the new framework and they're working to implement that.

But obviously if that framework is not complete, we would be in jeopardy of being able to transfer data. So we're waiting for that to be complete. We're optimistic that that process will happen. But it has not been fully resolved at this point. And we're sort of watching that political process unfold, but optimistic that there will be progress there.

Brian Fitzgerald: OK. Appreciate it, thanks.

David Wehner: Yes.

Operator: Our next question comes from the line of John Blackledge with Cowen. Your line is open.

John Blackledge: Great, thanks. Two questions. On Reels engagement, do you think Reels is gaining ground in terms of user engagement versus TikTok and other short-form video platforms? And then second question, just any updated thoughts on monetization levers at WhatsApp? I think Click-to-Message Ads was talked a lot about on the main call. That's probably the largest at this point, but any color there would be great. Thank you.

David Wehner: Sure, I'll take the first -- the second one, sorry, and then we can circle back to the first one.

So on the monetization levers for WhatsApp, yes, clearly Click-to-Message Ads are the big opportunity in front of us today. And that's a multi-billion dollar business. It really contributed to growth in places like APAC and rest of world. We called that out, it's a multi-billion dollar business growing double digit percentages.

I also mentioned that in other revenue in Family of Apps, the WhatsApp Business API was a driver of that growth, though obviously that's a small line item at this point. But that is another area kind of that we do think has meaningful opportunity over time in addition to continuing to build out the Click-to-Message Ads.

On Reels engagement, we're pleased with how that is progressing. We think that we're doing well. Obviously, there's third-party tracking services that provide data on TikTok and other services, but we feel that we're competing very effectively in terms of rolling out Reels on Instagram and Facebook and on both it's growing very quickly. And we saw, as Mark mentioned, 30 percent increase from the time that people spent engaging with Reels across both Facebook and Instagram. Clearly, it's above 20 percent of the time on Instagram and it's growing as a percentage of time on Facebook. So we think we're on a good track with Reels.

Brain Fitzgerald: Thank you.

Operator: Our next question comes from Craig Huber with Huber Research Partners. Your line is open.

Craig Huber: Great. Thank you. Can you talk a little bit more about the competitive threat from TikTok. I mean a couple conference calls ago, Mark talked a lot about TikTok, and it's been pretty silent since then. Are you seeing increased competition there, increased concern on that front?

Susan Li: I mean TikTok continues to be a strong competitor but we are pleased with the growth of our own short-form video product. I think Reels certainly has been a bigger presence on Instagram but now is growing on Facebook too and we've had more global rollout of Reels across Facebook and we're pleased with the way that Reels engagement is growing.

Craig Huber: And then also on the metaverse, Mark talked in his prepared remarks about unlocking hundreds of billions and then trillions over time. Can you maybe just talk a little bit about the -- how you're going to monetize that from your vantage point, given what money you're spending here? How do you -- what's the plan here how to monetize this in a big way from your vantage point? Thank you.

David Wehner: Yes. There's clearly a number of different opportunities as we build out a platform in computing. And so I think we can look to how other platforms have monetized overtime. We're clearly selling hardware today with Reels. We've got -- we've got the app store -- sorry -- hardware with our Quest 2 product. We've got an app store as well. So that's a monetization opportunity. There is, of course, continuing to grow the advertising business on this new platform. We think that's a huge opportunity over time.

And then one of the areas that's particularly exciting is digital goods over time. We know that as you go into a world in which you are experiencing 3D content and have this sort of embodied experience, there's going to be opportunities for more and more things to be digitized. So it is a huge opportunity for digital goods and services in a augmented reality and virtual reality future.

So we're very excited about the possibilities behind digital content and digital goods. We think that that's clearly a factor in other kind of metaverse plays today and will be a factor for our products as well.

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

Operator: That will come from the line of Mark Zgutowicz with the Benchmark Company. Your line is open.

Mark Zgutowicz: Thank you. Just on Reality Labs, Dave, I appreciate a little bit of color around 3Q but just trying to get a sense of if we think about the trajectory here over, I guess, the next 12 months and beyond, you've obviously been growing pretty aggressively there. And I was just curious if you could maybe provide some of the puts and takes on the trajectory here over the next 12 months.

And then maybe a higher level question but I'm just curious, as you think about your investment in Reality Labs and metaverse broadly speaking, how would you characterize the investment in terms of it pointed to a centralized versus decentralized metaverse in terms of producing future economic returns? I'd appreciate that. Thanks.

Dave Wehner: Well that's -- OK. So the second one I think is going to be an interesting one, and I'd love to get other's takes on it and Mark's take on that, so I might put a pin in that. I'll try and answer it.

But in terms of the expense trajectory for Reality Labs, obviously we've benefited this quarter from the $472 million reduction in our estimated losses on purchase commitments related to the price increase on Quest 2. So that tended to, I think, understate the growth rate -- the core growth rate in Reality Labs expense because we got that benefit this quarter.

This is obviously an area that is on our priority list. And so, we do plan on continuing to invest in Reality Labs. We don't have a specific trajectory that we're giving guidance on. We just give overall expense guidance for the year for the entire company. We obviously brought that in for this quarter to reflect the discipline that we have across the business.

And in terms of our expense growth from 2021 to 2022, the bulk -- the largest component of the expense growth is Family of Apps, but we do think that Reality Labs will continue to be an investment area for us.

In terms of the centralized versus decentralized metaverse, I think that broadly how I think about it is we're building -- we're certainly building an ecosystem that we think will be an opportunity for partners to build great businesses on our platform over time and have an ability to build and build as many alliances around building great content and experiences going forward. So to the extent that that is more of a decentralized metaverse, I guess you could say that. We're certainly working with partners to build an ecosystem that's healthy for all participants.

Deborah Crawford: Great. Thanks, Dave. Thank you 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.