

**Meta Platforms, Inc. (META)**  
**Fourth Quarter 2022 Follow Up Call**  
**February 1<sup>st</sup>, 2023**

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 Fourth Quarter and Full Year 2022 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 today are Susan Li, CFO, and Chad Heaton, 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 the company investor presentation are available on our website at [investor.fb.com](https://investor.fb.com). And now, I'd like to turn the call back over to the operator for the first question.

Operator: Thank you. Your first question comes from the line of Michael Nathanson with MoffettNathanson. Your line is open.

Michael Nathanson: Thank you so much. I apologize for this question as your starting question because it's a bit geeky, but can you talk about depreciation for a

little bit, Susan? We're trying to understand how meaningful the change of useful life on the servers were on the quarter. And just in big picture, how do you think about depreciation as it relates to CapEx going forward? Because we're having a hard time trying to model depreciation.

And then, how does that flow through to cost of revenue? So, apologies for the first question as CFO, but that's something that we're trying to figure out. Like, how do we think about the depreciation given where CapEx is right now and the flow through to cost of revenues?

Susan Li: Hi, thank you, Michael, for the question. So, a couple of thoughts here. We didn't quantify the exact impact of this. But when I talked about the three factors that resulted in the 2023 expense outlook coming down I kind of ordered them: slower payroll, more importantly, a slower hiring trajectory, as the first order factor; the second thing I described was cost of revenue, of which depreciation is the sort of the primary factor there; and the third is facilities, and that's roughly - the facilities restructuring charge previously estimated at \$2 billion - we have pulled some of that forward into 2022, so now it's roughly \$1 billion in 2023. And those three factors are roughly in order of magnitude.

In terms of what's driving the depreciation change, we are evaluating the useful lives of our servers and making sure that we're utilizing them as efficiently as possible. I think that's very much in theme with the year of efficiency. And we've extended the useful lives of - for CPUs over the past two years given the slow down in performance gains. So, that's really what's driving that.

And we'll continue to evaluate how most efficiently to use servers across our fleet, both for CPUs and GPUs. And I think the other thing I would just add is a lot of the CapEx spend, of course, is still going data centers, which, of course, have a much longer useful life.

Operator: And your next question comes from the line of Ross Sandler with Barclays. Your line is open.

Ross Sandler: Hey, everybody. I've got like two questions. Two different subjects, anyway. So first is on the CapEx topic. Susan, I know you're not going to provide numbers beyond this year's new guidance range. But just philosophically, you just mentioned the data center CapEx, which is both like buildings and construction and land, I'm guessing, some of the non-technical CapEx.

Can you talk about how that's going to trend going forward in light of the new data center approach? And then you also have flat headcount and kind of a hybrid workforce going forward company-wide so the non-compute CapEx going to continue to shrink?

And then on the technical CapEx, with this new data center approach, did that just space out the compute expenditure or do you expect to also see much better unit efficiency since there's a lot there on the CapEx? Yes.

Susan Li: Hi, Ross. I'll do my best to address all of those things, and you can let me know if there's anything I've missed. So on the data center architecture, this is a new architecture that we've been developing, and it's going to replace the prior data center architectures, and it's much more flexible in terms of accommodating both A.I. and non-A.I. workloads.

That flexibility means that with this new data center architecture we can also optimize our approach to building data centers more efficiently. So we have a sort of new, more phased approach that's going to let us build base plans for data centers with less initial capacity commitment, but then we can flex that up and fill those data centers, you know, with capacity more quickly as we need to.

I think what this is getting at really is -- there are incremental gains in unit efficiency, and actually the new data center design is inherently more efficient because it supports higher density racks. And so, that allows the campus to have a smaller footprint, and that's going to result in both reduced construction time and cost, and it increases base efficiency for us in terms of what we can do.

So, that's on the data center side. Now, that data center architecture will apply to all of our forward-looking construction. And so, we expect sort of

the efficiency that you get from the new architecture and the new data center approach to continue to flow through 2024 and further years, and I think that will have longer-term impact on the way that we build our -- especially our A.I. capacity.

Having said that, the thing we're always evaluating is how much A.I. capacity do we need. So I think that's the place where, again, we're relatively early in our investment cycle as a company. We're quite pleased with the early results we've seen in terms of what it's driving for our monetization work and our ranking and Discovery Engine work on the core engagement side.

And so, we'll be watching that closely, and we want to invest aggressively while we continue to see those returns. On the non-technical CapEx side -- we are absolutely continuing to evaluate our facilities footprint, and we've been doing that over the last couple of quarters.

As you alluded to, we certainly have a more hybrid workforce, and I think consolidating the facilities footprint is not only good business, but frankly it's making the offices a more vibrant place to work when they're denser and have more folks in them.

So I think that is another area where, as Mark alluded to, as it turns out things that create cost savings can also drive other efficiency benefits as well, in this case, a more vibrant and productive office culture.

Operator: Your next question comes from the line of Brad Erickson with RBC Capital Markets. Your line is open.

Brad Erickson: Yes. Thanks. So just to follow up on the conversion improvements that got brought up a few times on the call, when those customers are starting to see it sounds like ROAS improvement and lower cost per action, all that stuff, are you finding that they're actually sort of immediately or at some point spending more as a result of the upside, or do you still feel like at this point this macro uncertainty in everything that they're kind of pocketing that upside and you haven't really seen the follow through on more spend on those conversion improvements? Which of those would you say is sort of more the case at the moment?

Susan Li: This is a really good question. I mean, certainly the thesis is as you drive more supply growth and as you drive more monetization work that improves the ads targeting, delivery, and measurement systems, you get more conversions. That means lower CPA, higher ROAS for advertisers.

It is quite challenging I think to measure all of those -- higher (ROAS) for advertisers leading to, as you put it, higher budgets -- it is quite challenging to measure all of those things causally in a short time frame. And we have seen historically that it does take advertisers time to respond, and I think that's particularly true in the current macroeconomic environment that we are in.

Prices are still relatively weak, and you saw that in the CPM year over year trends that we disclosed on the call. But I think this is a really good opportunity for us as the overall macro landscape improves.

Ross Sandler: Thanks.

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

Brian Fitzgerald: Thanks guys, we had a couple questions. One was just on the short form video space, and one of the players in the market there announced their revenue share plan for creators.

Could you talk a little bit about your thoughts or plans there about incentivizing creators? Is that increasing, is that decreasing in intensity? And whether you think there's a need to be a more significant way in terms of how you reward creators in the future?

Susan Li: Thanks, Brian. So we're taking a portfolio approach to how we think about helping creators monetize. We think this is more compelling than a single broad rev share program. So we've developed a number of ways for creators to earn money on our platform.

They can do it through brands and branded partnerships. They can earn money from fans and followers through subscriptions, through our stars program, and certainly through rev share, and even in terms of rev share there are multiple programs for them to monetize via in-stream ads, I think is an example, and so that's where they place ads within content that they create on the platform.

We have overlay ads where you can put sticker and banner ads and in Reels on Facebook. We launched a music rev share in July that gives creators and music rights holders a way to monetize, and so I think we're really investing in a pretty broad arsenal of avenues for creators.

We recognize it's really important for there to be a strong ecosystem and for them to be able to make money on our platform. This is -- it's been factored in to our guidance, and I don't -- we don't expect that it will change the overall cost structure of the business anytime soon.

Brian Fitzgerald: Thanks, Susan, appreciate it.

Operator: Your next question comes from the line of Mark Zgutowicz with The Benchmark Company. Your line is open.

Mark Zgutowicz: Thank you, hi Susan. Just in terms of the utilization that you talked about, click-to-messaging ads, half of your advertiser base, I was just hoping that you could maybe elaborate on how small businesses are transitioning to this format after what has been a really difficult year that we've heard from them, just from a support standpoint as you've gone through obviously a pretty tough time with the ATT transition.

So, the specific question is sort of how much support is required to sort of move small businesses in this direction and sort of how that -- what are the puts and takes of that transition? Thanks.

Susan Li: Yes, thanks for the question. This is certainly an area that we're really excited about. In general -- I think I alluded to this on the call, this has been a very fast-growing area for us, and I think I shared on the script that over half

of click-to-message advertisers are using this ad format exclusively on our platform.

So we certainly think that that is driving meaningful incremental demand. A lot of the things I talked about in terms of how we are scaling this are, I think, a big part of how do we get small businesses on the platform in greater numbers. And so the ease of kind of creation, of creating more entry points, for example, in the WhatsApp business app, making the creation flows as simple as possible.

There are partners that we are working with to help small businesses scale. Those are all very -- those are very important investments for us in terms of helping to make sure that small businesses can use our tools and use this ad format more effectively, especially in developing markets.

And then also making sure that things like business directory search on WhatsApp are -- is working well and making sure that users and businesses can find each other and connect easily is a big part of the investment.

So we really thought in Q4 that -- I think advertisers saw meaningful results and again, -- more in developing markets in places like Brazil and in Asia. We saw more people turning to messaging over the holiday season to engage with businesses to get help to find deals to prepare for holiday travel.

And SMBs are the backbone of our click to messaging revenue today. So we're really just investing and trying to make this as easy for them to use as possible and to onboard as many businesses to the WhatsApp business platform as we can.

I'd actually add one more thing. In November, we held our first ever WhatsApp Business Summit in Brazil, which is one of our largest markets. And we hosted, I think, like 700 plus businesses at the Summit and launched the ability for people in more countries to search for and find businesses in WhatsApp. So we're -- this is really a place that is a very critical area of investment for us.

Operator: Your next question comes from the line of Rich Greenfield with LightShed Partners. Your line is open.

Rich Greenfield: Hi, thanks for taking the question. You're basically running two algorithms. One for sort of the basic news feeds on Facebook and Instagram and then another algorithm for Reels. And I guess starting to just think about is there a point where those come together? I'm sort of curious sort of how that process plays out over time. And when they do come together are -- before they come together and you actually merge them, if that ever happens, what is time spent between the two different algorithm and feed look like today?

I know Mark on this call talked about monetization that's obviously not yet near on Reels what you have on the main newsfeed. But just curious sort of how the time spent splits and what the consolidation timeframe could look like overtime. Thanks.

Susan Li: Yes. What I would say here is ultimately we are focused on driving overall engagement and time spent on the platform. Obviously there are particular demographics that we're tracking more closely, I think young adults as an example, and that's a place where Reels has been a disproportionately more successful product with that particular demographic.

But we do look at engagement across the Family of Apps holistically even though different experiences have -- sorry -- different surfaces have different experiences and feels to the surface and they might be ranked somewhat differently.

We haven't shared, I think, the time spent split, again. But again, this is something we're looking at in aggregate and making sure that we understand the impact of cannibalization from one surface to another, in particular when those surfaces have very different levels of monetization.

So I think you get the overall impact to some degree, you can see that on the impression growth metrics that's been driven more obviously by services like Reels in recent quarters.



And then I think the question about monetization, the thing I'd say is, again, advertisers really buy across the whole platform, and a lot of work that we have done on Reels actually has been to unlock advertiser demand on Reels. And so, now most of our ads objectives can be purchased on Reels. And if you buy a conversion, you're paying for the conversion through the auction kind of irrespective of where the impression actually showed.

So the actual sort of business outcomes, I think that's a place where the pricing is more surface agnostic. Ultimately, what you see with Reels is because of the differential in ad load and then of the different actual experience of the format being more video-intensive, so there's scroll-speed differences for Reels relative to services like Stories and Feed. That's what kind of is holding Reels back from a monetization efficiency standpoint per time relative to the other services.

Operator: Your next question comes from the line of Tom Champion with Piper Sandler. Your line's open.

Tom Champion: Hi. Good afternoon, everyone. Susan, maybe you could just expand on your comments around impression growth a little bit, just looking at the 23% growth in 4Q and the very solid improving trend through '22 - 15, 15, 17, 23 percent. Can you help us understand the drivers of that 23% impression growth? And what -- is that just Reels kind of having an impact or is that time spent, more users? Is it technical improvements? Can you just shed some light on that? That would be very helpful.

Susan Li: Yes. It's a combination of those things. So I think it's a combination of both the growth in Reels. That's certainly a faster-growing source of impressions. And there's also I think some ad load optimizations that we're making across formats that would include Feed and Reels. And then there are certainly engagement tailwinds, which we talked about on the call also. So I would really say all three of those play a role in the impression growth.

Operator: Your next question comes from the line of Ralph Schackart with William Blair. Your line is open.

Ralph Schackart: Good evening. Thanks for taking the question. Susan, on the call you talked about -- gave some color on the different ad vertical spends and on specifically e-commerce. I think you said something along the lines of it being still down year-over-year but that the decline in ecommerce has slowed you said to last quarter. Just curious even though it's marginal improvement, what's driving that marginal improvement? Is it just maybe simply the holiday quarter if you're looking at it sequentially?

And then maybe just kind of bolt onto that, any changes you'd call out, sort of good, bad, or indifferent for the beginning of the year in terms of the macro front as you've talked to your advertising partners? Thanks a lot.

Susan Li: Yes. Thanks, Ralph. So just to clarify I think the comments that I gave on the call, what we're saying is year-over-year e-commerce growth was still negative in Q4 but less negative than year-over-year e-commerce growth in Q3. So that factors in the holiday seasonality point that you mentioned since we're comparing to the same quarter in prior year.

So, I think we certainly view that as moving in the right direction although, of course, the fact that it was still negative year-over-year and e-commerce is such a big vertical to us, is -- was a big part of our revenue performance.

Going into Q1, I think as I mentioned, we are -- I think there's still a lot of uncertainty around the outlook. We've tried to capture that in our range. But there are just a lot of factors still ongoing in the e-commerce vertical generally. I think there's still a little bit of working through the post-pandemic e-comm decel. I think the e-commerce landscape continues to be more impacted by the signal loss changes, et cetera. So, I think it's uncertain as to when that vertical will really rebound. But we do think there is a good opportunity there when it does.

Operator: Your next question comes from the line of Stephen Ju with Credit Suisse. Your line is open.

Stephen Ju: OK, thanks. Hi, Susan. I think Mark talked about \$10 billion sort of annual run rate. I guess for click-to-call, I think that's in the entirety. So, and I think last quarter you disclosed a WhatsApp as a piece of the total run rate.

So, I just wanted to clarify that the \$10 billion is WhatsApp and Messenger put together. And you highlighted results earlier and then I guess there was like a WhatsApp event there. But is there a different sort of regional exposure in terms of where you're generating the revenue that we should be thinking about between the two services, it sounds like?

And also, it sounds like it's still pretty much early days on ramping the revenue and I think you guys have always been pretty good about making sure that the user experience is not negatively impacted. So, what signals are you monitoring to the balance the needs of the user versus the marketer (inaudible)? Thanks.

Susan Li: Yes, the \$10 billion figure is actually all click-to-messaging ads across multiple platforms. So that includes click-to-Messenger, click-to-WhatsApp, and click-to-IG Direct, although that certain third one is certainly much smaller. I think you also asked if there was sort of a geographic skew.

And certainly, click-to-messaging ads have been more popular and prevalent in developing markets. I think it's a combination of factors. I think it's both a stronger cultural norm there to communicate with businesses over messaging platforms. And also, I think it's more scalable for marketers in those geographies to leverage that ad format and engage in conversations with prospective customers.

On your second question, which is the question of Reels. I think Mark alluded to this in his remarks. Ultimately, we care a lot about making sure that Reels is a really successful consumer product. And our being able to achieve that will almost certainly make us also better positioned to monetize Reels over the long run.

So, the focus really is on growing Reels. As I mentioned, I think it's also been a particularly effective strategy as part of our young adults' work. And I think that is the – that's kind of the first-order goal. We are also working hard on closing the monetization gap. And we mentioned that we expect Reels to be overall revenue neutral at the end of this year, early next year and that's still the time horizon that we're on.

Operator: Your next question comes from the line of Mark Kelley with Stifel. Your line's open.

Mark Kelley: Great. Thank you. Hi, Susan. I'm sorry to go back to CapEx, but you made a point to say that the CapEx is mostly in the Family of Apps at this point. I'm just curious if the new data center approach sets you up well to handle the reality lab side of the house whenever that's a bigger business?

And then just a quick one on the competitive landscape, mainly TikTok, certainly appreciated the color on the Reels trends that you're seeing. I wanted to get your thoughts on implementation of third-party ad verification partners. TikTok has been pretty supportive of third-party participation. I think that's something that advertisers appreciate, so any thoughts there would be helpful as well. Thanks.

Susan Li: Sure. On the CapEx question, again, I think as we mentioned, substantially all of our CapEx spend right now goes towards supporting the Family of Apps. Ultimately, the new data center architecture is going to make it more efficient for us to build sort of towards all future infrastructure needs whether that's A.I. or non-A.I., and that's why we've chosen this data center infrastructure.

So I don't have a -- we don't have a timeline on when Reality Labs might have higher compute needs than it does today, but certainly when that comes to pass, the new data center architecture will, I think, enable us to build towards that as efficiently as Family of Apps.

But I want to emphasize that the CapEx build right now is really towards investing in A.I., and that's primarily, again, a Family of Apps use case, but that's really the focus of the current investment.

The second question was on implementation of third party ad verification partners. I'm not entirely sure what you're referring to, but -- so I'm going to take a guess here and you can tell me if I'm off base.

We are in the stages of testing different kinds of privacy tools for ads where the data is sort of kept totally private, and there are different ways of doing that. Some of those involve third parties. And so, I think if that's what you're describing, that's something that we are also working towards as well.

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

Operator: Certainly. Thank you. That will come from the line of James Lee with Mizuho Securities. Your line's open.

James Lee: Great. Thanks for taking my questions. Susan, when we talk to a lot of agencies in general, they were pretty excited about Advantage Shopping Campaigns. Maybe can you help us understand how this tool really helps you? Is it more helping you on the targeting side recovering signals, or is it more on the measurement side? Thank you.

Susan Li: Yes. So Advantage+ Shopping Campaigns, we're excited about them, too. We rolled those out to e-commerce and retail advertisers back in August, and then we've expanded those to different objectives and verticals and formats, including app installs and shops ads in October.

It's one of our fastest-growing ads products, and I would actually describe the primary sort of leverage point of Advantage+ Shopping Campaigns here as automation.

So the big win I think for advertisers is that rather than manually testing many campaigns with an assortment of different targeting, creative, placement, budget setup, et cetera, advertisers can now set up a single Advantage+ Shopping Campaign, and that enables to test up -- enables them to test up to 100 different combinations, optimize for the highest-performing ads in a really fast and scalable way and make sure that we're delivering the highest-performing ads on their behalf.

We have seen in tests that we've done with advertisers that those campaigns are performing really well for them, and they see meaningful return, increase in return on ad spend compared to their non-Advantage+ business-as-usual

only campaign. So, it's definitely an area that has gotten a lot of positive advertiser feedback so far.

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

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