**Meta Platforms, Inc. (META)**
**First Quarter 2023 Results Follow Up Call**
**April 26th, 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 First Quarter Results Follow-Up Q&A call. All lines have been placed on mute to prevent any background noise. To ask a question, please press "1" then the number "4" 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 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 annual report on Form 10-K filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we may present both GAAP and certain non-GAAP financial measures. 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 open the lines for a question and answer session. To ask a question, press "1" then the number "4" on your touchtone phone. Please pick up your handset before asking your question to ensure clarity. And if you're streaming today's call, please mute your computer speakers. Your first question comes from the line of Brent Thill with Jefferies. Your line…

Brent Thill: Thank you. We've heard really good things from advertisers on Advantage+, and I'm just curious what you're seeing – how important that rollout has been and any other color you could provide on that. And I had a quick follow-up.

Susan Li: Hi, thanks, Brent. Yes, I mean, we are hearing good things too. And we're also seeing good things in the adoption and sentiment that we are measuring about Advantage+. Advantage+ Shopping campaigns, I mean, they've been growing steadily since launch. I think Mark mentioned that, in the last six months we've seen a 7x increase in daily revenue.

And in particular it's such a good tool for ecommerce and retail advertisers, which are the segments that we originally designed the solution for and are such a big part of our advertiser mix.

We have been broadening availability to other verticals. We're seeing good traction in other verticals, including CPG, and we are, as with all of the sort of new ad product launches, we try to be rigorous about measuring performance. And from the studies that we run, we've seen Advantage+ Shopping drive lower cost per conversion than similar campaigns run without it. And so, again, the feedback is positive.

At this point I would say there is like a portfolio of tools that are in the Advantage+ suite, and we're continuing to iterate on those, but there is Advantage+ Shopping Campaigns, which allowed advertisers to no longer need to manually test campaigns with different targeting, creative placement and budget setups. We test combos for them.

We have Advantage+ app campaigns, which simplifies the app install campaign creation and drives performance for app advertisers by using real-time learnings to adjust ads across audiences, placements, and creative.

We have Advantage+ Placements, which is a tool that finds the most effective placement for a given ad, shows ads across a handful of possible placements, and gives our system more flexibility to control costs and drive results for those advertisers. And now we have Advantage+ Creative, which automatically adjusts ad creative for each person that views your ad and helps show the version that they're most likely to respond to.

So it’s a suite of products that we’re continuing to innovate, and we feel good about the traction and adoption that we’re seeing there.

Brent Thill: Thanks, and Susan, just real quick on the Q2 guide. To get back to double-digit growth, which is assumed at the high end of your range, are you seeing a better macro backdrop, a similar backdrop? Like what needs to happen for that to happen?

Susan Li: Yes. I mean, look, ultimately Q2 is an easier compare, right? So if we look at Q2 of 2022, that was the first full quarter without Russia revenue after the beginning of the Russia-Ukraine conflict, and that was sort of the beginning of an accelerating period of weaker demand, and we have lesser currency headwinds.

So there is just some math here that is making the comparison easier. Having said that, there is a wide range of possible expectations, including macro outcomes that are captured in the Q2 outlook, and the high end of that reflects better expectations for what that demand landscape could look like, but there’s a lot of uncertainty.

Brent Thill: Thank you.

Operator: Your next question comes from the line of Colin Sebastian with Baird. Your line is open.

Colin Sebastian: Oh, great. Thank you. Deborah, good luck with the next move, and it’s been great working with you at Meta.

Two questions on the expense side. I guess, first off, on Reality Labs just contemplating kind of the operating losses and the long-term vision, was just hoping for some maybe detail on how productivity efforts or the restructuring efforts help reduce the intensity of annual investment required in that particular group?

And then secondly, I know this may be hard to answer, but trying to sort of splice out the cost of the AI initiatives and particularly the generative AIs since you've had AI for years, but this incremental AI, is there any way to quantify the cost of that whether that's from an infrastructure or OpEx perspective? Thank you.

Susan Li: Yeah. First of all, I will echo your appreciation for Deborah, who we're going to miss very much.

Chad Heaton: Yes.

Susan Li: This is her very last day here -- or the last week here and her very last earnings call today, so I am sad to see you go.

Deborah Crawford: Thank you.

Susan Li: Okay, so to your first question on Reality Labs, sort of contemplating the operating loss outlook and also how our efficiency and restructuring efforts apply. So we've talked about our efficiency efforts as having two broad components. The first is kind of going through and reevaluating road maps, deprioritizing projects. Effectively, I would think of that as areas where we are shrinking scope.

And the second is sort of -- the second effort in the efficiency workstream has really been around making the organization more efficient, and that has been work, like spans and layers, making sure that we feel like we have sort of the appropriate cross functional staffing and that we're looking to streamline processes; that's not really about scope reduction, that is about just making the organization more efficient and productive.

So when you look at those two efforts, what I would say is that the scope of our Reality Labs ambitions, especially over the long term, has not changed. I -- in the short term, there are places where we have made product changes, I think sunsetting the Portal -- consumer Portal line last year was a good example of that, but the magnitude of the long run vision and opportunity and ambition for Reality Labs remains the same. And you'll see that certainly play through in the forward-looking investment in Reality Labs.

Reality Labs did go through the same sort of organizational efficiency exercise as all of the other teams across the Family of Apps, so they are certainly becoming more efficient in that process as well, but I do think it's important to emphasize here that we think that the long run ambition of our Reality Labs work is still great, we think we're building a sort of a -- the future of computing platforms, and we're early in the process of putting together our long-range plan, which helps us benchmark what some of that product roadmap can look like. But we've said that we expect Reality Labs' operating losses to increase in 2023, and I'd expect that to be the case also in 2024.

So it's a big opportunity, it's very ambitious, it is becoming more efficient, but the long-run scope of our ambitions I think has not changed.

The second part of your question is around the costs of our AI initiatives, particularly Gen AI, so this is a really hard place to try and attribute costs. There is so much AI and machine learning work that underpins already so much of our core Family of Apps experience and product offerings.

What I would say in terms of the Gen AI piece specifically, that is a relatively smaller headcount team right now, because it is a nascent effort, so that's not very significant in terms of the percentage of headcount at the company, but it is a place where we are trying to deploy GPU capacity more quickly, that is captured in the CapEx guide right now, but I do think it's worth sort of double-clicking on Gen AI capital intensity.

We are planning to stand up several large scale training clusters in our data centers.  It's too early to tell exactly how much additional capacity we may need to build in future years to support these use cases, but it is likely that Gen AI workloads will be relatively more CapEx-intensive than other AI workloads, given the large scale compute infrastructure that you need to train Gen AI models and then what we think will be the relatively high cost of inference for Gen AI applications once we start deploying those across various products and services.

So we are well set up operationally to support the work here because of the investments we've made in our infrastructure strategy and the future data centers we are building, which should all be setup to support our AI workloads. But it's a place where although 2023 CapEx is captured in our guidance, I would say it's a little early to know what the impact will be yet on 2024.

Colin Sebastian: Great. Thank you.

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

Tom Champion: Great. Good afternoon. Susan, curious if you could just talk about the linearity of growth in revenue through Q1? And then also just any additional context on the strength of online commerce as a vertical? I know you referenced China during the call, but any other comments and maybe the connection with Advantage+ Shopping? Thank you.

Susan Li: Yes, in terms of Q1 revenue growth the stronger demand that we saw and especially in e-commerce, which has been such a big vertical for us and was particularly hard hit, I think, by the pull back in e-commerce spend kind of as the world reopened post COVID.

So that is a vertical that returned to positive year-over-year growth for us in Q1. It benefitted from growth among advertisers in China. And so, I think we feel encouraged there and we are certainly also building a lot of tools and product offerings to continue to really make it easy for e-commerce advertisers to optimize on our platform.

The linearity of growth and revenue, I mean we have -- we have sort of a lot of quarterly seasonality. So -- and I think part of that corresponds to the way marketers sort of spend their budgets. So I think we saw many of our typical season trends, I would say, in Q1.

It's not perfectly linear through the quarter but it does grow relatively -- it does grow relatively throughout the quarter.

Operator: Your next question comes from the line of Rohit Kulkarni with ROTH MKM. Your line is open.

Rohit Kulkarni: Hey, thanks for the question. And best of luck, Deborah. You'll be missed. A couple questions. First on CapEx, how quickly the cost of training complex AI models is coming down and maybe you could comment on that as being one of the forefront people to do research and AI and how that kind of informs your kind of longer-term kind of structural CapEx kind of outlook.

And then referring to Mark's comments on kind of mitigating the direct impact of ATT changes and improving ad performance, I guess what I would like to know is when you compare the performance that advertisers are seeing right now today in Facebook, do you feel Facebook has kind of completely caught up to what advertisers used to see on pre-ATT days as sort of performance is concerned or do you see like a pathway towards advertisers on a like for like seeing comparable results as such.

Susan Li: Hi, thanks for the question. Before I answer, I just wanted to add one thing. I realize I was thinking about the linearity on revenue growth for Q1 from Tom's question earlier. I did want to add that our growth rate in Q1 exited a bit higher because of lapping the onset of the Russia-Ukraine war. So, that is part of the math that is factoring into the year-over-year growth rates, especially going forward.

OK, sorry. Rohit, coming back to your question. So, the first question is about the cost of complex AI models. Again, I think we're relatively early here, so we don't have a lot of details to share.

But what I would say is, again, I'd emphasize that from what we know right now, our Gen AI efforts I think we expect to be more capital-intensive than the sort of core AI work we've been doing to date.

The – similar to many AI applications, the Gen AI work requires both training AI models and then also inference when you use that AI model to serve user requests. And the training infrastructure allows us to develop proprietary algorithms and models which then enables the various Gen AI applications that we build.

On the other hand, the inference infrastructure is dedicated to the deployment of models across various products and surfaces. And so, the training infrastructure is going to scale, starting with the size and number and complexity of the models that we're developing, and the inference infrastructure we expect to grow with the success of our products and the numbers of users that end up supporting or engaging in these Gen AI experiences.

So, we are in the process now, I think I mentioned this earlier, of standing up several large-scale training clusters, that's just training focused, and when we begin to build applications and use cases that we hope will engage users at broad scale then we'll also need to build out the sort of inference infrastructure.

So, this is part of why our early outlook is that the Gen AI work may be relatively more CapEx intensive than some of the other AI workloads that we've done. I'm going to turn over the second question to Chad.

Chad Heaton: Yes, so your second question was about ATT and specifically are we making progress to getting basically back to a place where we were pre the ATT changes? And I guess the way I would say is, I think that's probably the wrong way to think about it. I think ATT is just the new landscape that all digital advertisers, including us, operate in. And so, we're in this new space. And so, from there our focus is on improving ad performance with investments in onsite objectives and AI.

Susan talked before about CAPI, continuing to see good progress there. The Gateway, we've had a new Gateway feature, the multi-account feature. So, those are specific things we're doing on ATT. And then more broadly, as I mentioned, the focus on onsite objectives and AI. Within onsite objectives, the click-to-message ads, lead ads, shop ads, those are all things that we're investing a lot in. We're seeing good traction. And that's sort of the path forward for us as opposed to focusing on what is the pre-ATT world look like.

Operator: Your next question comes from the line Ron Josey with Citi. Your line is open.

Ron Josey: Awesome. Thanks for taking the call, guys. Susan, I wanted to follow up on just the messaging component of today's call and just the strength we're seeing in click-to-message and on WhatsApp paid messaging. Can you just talk more about the opportunities just to tap into not only advertising budgets, but I think you mentioned customer service and new budgets as it relates to just click-to-message?

And then, payments went live in Brazil this past quarter, I think. So, any insights on just how that might add to closed loop attribution, transactions, do you see that coming through more and more, is question one.

And if you could, just a really quick one. I think you said there's a supply constraint in Reels ads formats. And so, I'm just wondering like what you've seen on ad load, are we sort of at ad load and now it's pricing on Reels, or do you think there's more room to go on ad load too? Thank you, Susan.

Susan Li: Oh, yes, no problem. OK, so I'm actually going to answer your Reels question first then we'll come back to the messaging questions. So on Reels, the ad load is still lower on Reels than it is on other surfaces, and there is room for the ad load and Reels to grow, so we're not at max ad load.

The issue that I was flagging around sort of the structural issue as it pertains to ads supply on Reels over time is that because of the difference in scroll speed, it takes much longer to watch a Reel than it does to read a Feed, Story, a piece of content in Feed or to look at a sort of static Story image.

That means that our current ad load mechanics, which primarily rely on inserting ads in between pieces of content, would mean that if you held the mechanic constant, you would end up with a much lower per-time ad load on Reels than you would in Feed or Stories because of the scroll speed issue.

So that's what I was getting at. Now actually even on a sort of -- ignoring that for a moment just on a ads-per-number-of-organic-stories, Reels is at a lower place, so that's what I meant when I was saying that there's room for Reels ad load to grow. But when Reels ad load is the -- reaches whatever a mature state is in terms of being apples-to-apples with Feed or Stories, the scroll speed issue would still mean that it would be lower monetization per time.

So that's a place where we are going to need to think about how to be more creative about thinking through Reels ad load in the future as we get closer to something that is a more mature or more steady state ad load, and that's something that will, I think, ultimately be an important factor in terms of the long-run economics of how valuable Reels can be for us. So that is on the Reels question.

OK, coming back to the -- oh, right -- the click-to-messaging opportunity. So yes, we are also really excited about this. We're seeing strong momentum. We shared last quarter that click-to-messaging had reached a $10 billion annual run rate. That is continuing to grow even though we haven't updated that number, and then even more, I think, exciting for us is that advertiser adoption continues to broaden, and we estimate that over half of click-to-message advertisers are exclusively using click-to-messaging ads on our platform, which means they're really driving incremental demand, which is so important for us.

So the places that we are investing and scaling -- I think I alluded to these a little bit earlier -- ads creation, how do we make it easier to set this up in Ads Manager, investing in native ads creation in WhatsApp, partnering with our ecosystem of developers who can leverage the hosted API solutions that we're offering so they can also build experiences with click-to-messaging ads.

And then we're really doing a lot of work to drive action further down funnels, so we're updating our ranking models across all of our ads, including click-to-messaging ads, to try to make sure that they sort of are optimally targeted and as performant as possible.

We are testing the ability for advertisers to optimize now for purchases rather than just for message replies, so kind of changing the optimization function to be closer to the sort of ultimate business outcome or objective that an advertiser is looking for.

And we're investing in sort of new ways for businesses to drive the outcomes that they're looking for. We talked about in-thread payments and other commerce tools. And then I kind of talked about how this is the sort of laying the foundation for our much, much more nascent paid messaging business in terms of via by cultivating a ecosystem in which there is a lot of business-to-consumer activity and trying to foster that behavior on our platform, we're laying the groundwork for our paid messaging ecosystem.

This is very early, but we're seeing good growth. And we believe there's a big paid messaging opportunity here, and WhatsApp has such global reach. It has over 2 billion daily active users.

So we're focused on growing this area. We're sort of updating the pricing model to offer differentiated pricing for different use cases. We're trying to make it easier to buy. I think you alluded to payments in Brazil and people in Brazil can now find and message and buy from small businesses on WhatsApp directly. Anyone on WhatsApp in Brazil can try it now, and we're making it available to more merchants soon.

And we're continuing to invest in other in-thread experiences so that sort of the entire purchase funnel can take place within an app. So I think that's -- it's a big opportunity there. Is there anything you would add, Chad?

Chad Heaton: No. I think you covered it.

Susan Li: OK.

Chad Heaton: I guess I would just add, you mentioned P2M in Brazil. Well just note that in India we have similar end-to-end shopping experiences with JioMart, transit solutions with Bangalore Metro and more, so similarly powered by the WhatsApp Business API. So hopefully this is something that we can leverage beyond this specific Brazil case over time.

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

Brad Erickson: Yes, thanks. I had a couple. So first, just geographically, when you think about the results and the guidance, can you kind of walk through the geographies individually in terms of being better in-line or worse than your expectations? I know you mentioned China, but maybe if you could unpack some of the others there?

And then second, just on Advantage+, what sort of timeframe and expectations do you have there for "full or fuller adoption?" Is it something where within maybe 12 or 18 months most advertisers are going to get a look at it and adopt it or not, or is this something that's like a multi year thing where you're going to see more and more advertisers move over? Thanks.

Susan Li: Chad, do you want to take the regional ad revenue question and then I'll talk about Advantage+?

Chad Heaton: Yes. So I'll kick off with that. And I would just note this is based on user location. So ads revenue growth accelerated across all regions as pricing trends improved and the currency headwinds eased from Q4.

I'll just tick in through the regions quickly. In North America, the acceleration in year-over-year growth was driven in part by improved demand, especially from online commerce advertisers and lapping a weaker demand period than in Q4 as well as the accelerated impression growth that we disclosed.

In EU, the big factors contributing to the acceleration were lapping a challenging year-ago period and the start of the Ukraine War as well as the lessened currency headwinds. In APAC, the eight-point acceleration was primarily driven by lessened currency headwinds. And then finally in Rest of World, the acceleration of growth was driven by pricing, which is partly explained by broad based strength from the Middle East and Mexico.

Susan Li: And then on the Advantage+ question, so, I mean, I would say that we are still rolling out a variety of features. I think I talked about some of them earlier, and we're continuing to iterate on these and make sure that basically where we find the opportunity to deploy more ways to automate parts of the ad buying, ad targeting, et cetera experience for consumers that we basically

-- sorry, for advertisers, that we find ways to basically make that as automated and as easy to use as possible.

There is a suite of different tools. And so, I don't expect that all advertisers will use all of them. I think some will be better suited to certain subsets of advertisers than others. There are a number, for example, that are really focused on Shopping Campaigns that are very much optimized for ecommerce advertisers whereas there are others that are focused on creative optimization or audience optimization. So I think it'll depend a little bit on an advertiser's given use case.

We are seeing good adoption with the ecommerce and retail advertisers that we originally designed the solution for and I expect we will continue to try to design features and offerings that continue to expand it's usability for broader segments of advertisers going forward.

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

Operator: Certainly. Thank you. That will come from the line of Deepak Mathivanan with Wolfe Research. Your line is open.

Deepak Mathivanan: Great. Thanks for taking the question. Susan, on Reels still under-monetizing and your expectations that it likely stays that way until this year, how much of that is due to the growth and engagement on Reels over the past like say 12 to 18 months.

Again, what we're trying to figure out is it taking time to close the monetization gap because engagement is growing faster, kind of widening the gap or is it because the demand from advertisers is yet to ramp there, which one is the bigger driver?

Susan Li: Thanks for the question. So I think -- I just want to make sure I'm being clear, you're referring to sort of the overall Reels headwind as opposed to the gap in monetization per time of Reels relative to more mature Stories.

So Reels engagement -- you know Reels is actually becoming more incremental to engagement over time. So it's been incremental for a long time, which we've been talking about.

But nonetheless, some of the engagement is cannibalizing higher monetization services but it's becoming more incremental to engagement over time and that is really the piece that is enabling us to close the gap, even though its monetization per time continues to be below that of Feed and Stories kind of for the structural reasons that we described.

And then in terms of demand for Reels ads themselves, we feel like there's a lot of good progress here on -- we've talked in the past about the advertiser demand, making sure that we are unlocking advertiser objectives on Reels.

We're continuing that work in Q1. We've brought Click to WhatsApp ads to Facebook Reels. And we're now testing them on Instagram. We're enabling advertisers to boost organic images from Facebook on to Instagram Reels ads with photo albums. So we're continuing to sort of unlock more advertiser demand.

As I mentioned last quarter, the majority of our ads objectives are already eligible for Reels but we're kind of working on the incremental remainder. And then in terms of making Reels ads more performant, we're very focused on testing improvements to creative optimizations, improving templates that automatically convert creative that is not yet fully immersive to Reels ads, improving the quality of low resolutions Reels ads, testing ways to make Reels more interactive to help more people purchase, including call to action optimizations that we hope will drive conversion.

So I would say that there's a lot of good work being done on the sort of monetization efficiency side, which we hope over time in combination with the incremental engagement that comes from Reels will help take Reels from being not only a revenue headwind to neutral by end of this year, early next to a revenue tailwind going forward.

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

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