

Meta Platforms, Inc. (META)
Fourth Quarter 2023 Results Follow Up Call
February 1st, 2024

Operator: Good afternoon. My name is Krista and I'll be your conference operator today. At this time, I would like to welcome everyone to the Meta Fourth Quarter and Full Year 2023 Results Follow-up Q&A Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. To withdraw your question, again, press star, one.

We ask that you limit yourself to one question. This call will be recorded. Thank you very much. Ken Dorell, Meta's Director of Investor Relations, you may begin.

Kenneth Dorell: 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 earnings 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 will 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 earnings 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 Krista for the first question.

Operator: If you would like to ask a question, please press star, one on your telephone keypad. To withdraw your question, again, press star, one. Your first question comes from the line of Mark Mahaney from Evercore ISI. Please go ahead.

Mark Mahaney: Hey, if I could throw in two quick ones. Click-to-message, revenue contribution, can you give us any sense of where that is? I think it's close to 10% of your total revenue, but anything you could help with there. And then Threads, I assume this is still long away from any potential monetization, it sounds like your priorities near-term are just scale -- improving the features and scaling up the user base, is that the right interpretation? Is there any reason to think monetization would begin this year? Thank you.

Susan Li: Hi, Mark. It's Susan. So first of all, we haven't provided any further quantification of the click-to-messaging revenue contribution this quarter, so I don't have more specifics to share on that outside of what we said previously.

On Threads, I would agree with your assumption. We are very much focused on really making sure that there is strong product market fit in this area, responding to user feedback in terms of what -- in terms of types of requests basically that we get for features to add, to make it better and more valuable, and we want to keep the pace of improvements and growth going. We're very happy that it has over 130 million monthly actives now, and monetization will be later in this playbook for us.

Mark Mahaney: OK, thank you, Susan.

Operator: Your next question comes from the line of Youssef Squali from Truist Securities. Please go ahead.

Youssef Squali: Thank you. Hi Susan. Two quick ones please. So growth in average price per ad turned positive year on year this quarter after I think almost two years of decline. How much of that may be the impact of AI improvements versus other things like ad formats, and mix and other things? And does your Q1 guide -- or how should we just be thinking about the potential for further acceleration that's now positive?

And then Mark on the call, on the main call, talked about WhatsApp and how he's seeing more broad success in the U.S. Can you maybe just provide a little more color, and maybe connect it to what product within WhatsApp are actually resonating more with clients? Thank you.

Chad Heaton: So this is Chad. I can start with the question about the CPMs. So the year over year growth in average price per ad did improve 8 points from Q3 to plus 2%. That happened in part because impression growth slowed, so you have sort of the natural auction dynamics that play through, but of course we're continuing to deliver ad performance improvements as well. And so as we think about opportunities for further improvement going forward, that is all of the investments that we're making to improve ad ranking and optimization, et cetera, so that will continue to be a driver but certainly the slowdown in impression growth is a key factor as well.

Susan Li: On your second question about WhatsApp, we don't have any sort of specific WhatsApp engagement trends to share here. What I would say is for us, WhatsApp has historically been -- has grown really in markets outside of the United States, and so I think over the last quarter a few times we've highlighted that we are now seeing strength in North America, and that's really what Mark has been alluding to, and obviously it's something that we're very pleased by.

Operator: Your next question comes from the line of Ken Gawrelski from Wells Fargo. Please go ahead.

Ken Gawrelski: Thank you. Two questions, if I may. The first on cookie deprecation on Chrome, I know it's early days but could you discuss any potential impact you're seeing in the business and how you're thinking about that from both a targeting and attribution perspective?

And the second question would be on -- you talked about the cross border -- the China cross border impact. Could you talk a little bit -- I just want to clarify, are you seeing more of that spend now outside of -- outside of North America and did that shift really occur in the fourth quarter? And would you expect that continue to continue into the first half of '24? Thanks.

Chad Heaton: Yes, this is Chad. I'll take the cookie deprecation first. So as we've said before, Google's multi-year initiative is in line with our focus on building privacy enhancing technologies. We're encouraged by their collaborative approach in engaging with the industry to develop technologies that enable relevant advertizing in ways that are less reliant on individual data.

So we're feeling confident that we'll be ready to help businesses navigate changes that privacy sandbox deploys to minimize disruption while supporting privacy through increased transparency and privacy enhancing technologies. So we can't quantify any expected impact at this time but this is something that we feel very well prepared for.

Susan Li: And Ken, I will take your second question, which was around China. First, I'd just point to the fact that growth for us was quite broad-based and we also saw strength in U.S. advertisers over the quarter.

On the China question specifically, I began citing strength from China based advertisers actually I think in Q1 of this year. That's continued through the year and really I would say there was a longer term trend of growth here that was impacted by COVID lockdowns and kind of that period of time.

So in '23 we saw the comp against '22, which was a period where that was heavily affected by COVID lockdowns, and higher shipping costs made the comp easier. So the level of growth in 2023 will probably be hard to replicate. But we'll just keep watching this and see how it plays out.

Operator: Your next question comes from the line of Rob Sanderson for Loop Capital. Please go ahead.

Rob Sanderson: Thank you. I'm going to stay on the China theme just so I can make sure that we all understand the disclosures that you offer on the main call. I think you said that cohort was about 10% of -- and contributed 5% to growth.

So if we look through the disclosure of customer address in your 10Qs, that cohort of Asia is up 27% through Q3. So should we interpret your comment, Susan, that 10 points of that 20, whatever it ends up being when we get to

Q4, is China? The rest of that's Asia and that of the 16% year-on-year growth, 5 points of that were from that cohort. Is that the correct interpretation?

Susan Li: Rob, I apologize, I don't think I followed all the -- sort of the detail of the question. But yes, the China ad revenue is a subset of the Asia-Pac ad revenue that is disclosed by advertiser location in the 10-K.

And you'll see that when the K is released. I would also add here that our ad spend -- ad spend in China, I think we know that spend from a few of our larger advertisers has been an important contributor to strength in China broadly. But in fact, two-thirds of our China ad revenue came from advertisers outside the top 10 spenders in that country in 2023. So even within that it is a diverse advertiser base.

Operator: Your next question comes from the line of Justin Patterson from KeyBanc Capital Markets. Please go ahead.

Justin Patterson: Great, thank you very much. I just wanted to go back to privacy really quick, maybe from a different angle. Could you talk about just how many of your advertisers are on CAPI right now? And whether you think just things like the deprecation of cookies really accelerates that shift? And just a quick aside in there, I noticed that custom silicon seems to be increasingly in focus over at Meta. So, as you're looking at just CapEx contribution, should we think about just your own silicon representing a larger portion of chip sets in the future? Thanks so much.

Susan Li: Thanks, Justin. So, the first part of your question was about CAPI. We haven't, I think, quantified recently how many of our advertisers are using it. In general, the feedback on tools that we have, such as CAPI, such AEM and including the more recent full rollout of app AEM in Q4 has been very positive and I think they're very useful for advertisers who adopt them. And we continue to enhance them, enhance the reporting, make it easier to understand the impact.

I think we had some launches in Q4 to help advertisers better understand how many additional conversions they might expect, that sort of thing. So, these tools, I think, make it easier for advertisers operate in the changing

data landscape. And I think that will generally continue to be true, as that landscape continues to evolve.

The second part of your question is on custom silicon. So, broadly we're very committed, obviously, to our longstanding partnerships with the industry's leading silicon providers. We'll continue to be purchasing quite a lot of silicon from them. But we're exploring alternatives, and have been, to GPUs for some time and that has included deploying our own custom silicon for specific AI workloads.

And this year, in particular, we are ramping adoption of our in-house MTIA Inference chip, particularly for our recommendations work. And we have found that designing own silicon allows us to optimize specifically for the kinds of workloads that we know we need to run and to gain control over the entire stack, from hardware to software and the application layers.

So, we find that GPUs are not always as optimized for running our specific recommendation workloads at the level of cost and performance efficiency required at our scale. So, we haven't quantified the mix. And, certainly, with the magnitude of our AI ambitions and associated capacity needs, I expect we will be leveraging all of these avenues of capacity growth in the years to come.

Operator: Your next question comes from the line Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson: Thanks. Hi, Susan. Hi, Chad. I have two. One is, over the past couple years we spent a lot of time worrying about the loss of signal from the IDFA changes. I wonder if you could help us all to dimension or benchmark any type of rollouts or compare now versus then? Have you been able to recapture where you guys were a few years ago through all the innovations you've made? So, anything you can help us on benchmarking the return or recapturing signal.

And then, I think Susan, I think one of the questions that happened earlier was, just asking when you said 5 basis points, 5% from China advertisers, did

you mean 500 basis points of the growth? Was it 500 basis points or is it 5% of the overall growth? Thanks.

Susan Li: Thanks, Michael. So on the first question about where ROAS is relative to pre-ATT, I don't have a comparison to give you relative to pre-ATT. In general, we think the landscape has changed so much that it's kind of hard to know the counterfactual of what the world would look like without ATT today.

But we've made meaningful improvements to our performance and measurement in recent periods. We believe that advertising is a relative performance gain and that we are very well-positioned here because of all of the investments we've made, and we've received consistently positive feedback from advertisers who adopt our tools. On the second question, China contributed 5 percentage points to overall revenue growth in 2023.

Operator: Your next question comes from the line of Brent Thill from Jefferies. Please go ahead.

Brent Thill: Thank you. What are you seeing so far just in Q1 that gives you the conviction in accelerating revenue growth that's implied in your guidance, and has the overall operating environment improved, or is something that's just more idiosyncratic or some combination? Thank you.

Susan Li: What we're really seeing in Q1 so far has been a reflection of the generally strong and broad-based advertiser demand that we saw in Q4, and that was spread across verticals, but particularly within online commerce and gaming for us.

And I would again highlight we get an extra day in this quarter, and I'm telling you that so that a year from now I'll remind you that we're comparing against a quarter with an extra day. But we recognize that there is a lot of uncertainty and certainly a lot of different possible macro-outcomes throughout the year, and those become harder to predict the further out you go.

So we are extrapolating from the trends that we saw in Q4, but at the same time, I want to be clear that we do think, if we've learned nothing over the last two years, it's just that we're operating in a highly uncertain environment.

Operator: Your next question comes from the line of Rohit Kulkarni. Please go ahead.

Rohit Kulkarni: Hey, thanks. One on Reels and just one broadly on elections. Price per ad increased this quarter for the first time in several quarters? Maybe comment on how -- whether Reels contributed to that, or how was Reels pricing versus the rest of every ad unit.

And then just any broad thoughts you have on elections and election advertising? There's a lot of elections globally and no better place than Facebook to advertise, so just how are you thinking about that?

Chad Heaton: Sure, so I'll start with the Reels CPM question. So Reels CPMs are lower than Feed and Stories today, given the relative maturity of Feed and Stories, which has benefited from years of optimizations. But we already have very strong demand for Reels ads, we have over three quarters of our advertisers are using them, and we anticipate that CPMs will be growing over time as we invest in driving performance through better ranking, interactivity, and ad formats.

Susan Li: On your second question, which was about elections 2024, it's certainly a big year for elections. We've already had some around the globe and many more to come. For us, protecting the elections is a top priority. We've invested a lot in our safety and integrity efforts in this area, we've invested more than \$20 billion actually since 2016 in safety and security, and we have partnerships with nearly 100 fact-checkers globally in more than 80 languages here.

So we're really focused on doing the work we need to keep our platform safe. And it's not really a material contributor to revenue growth for us. We don't expect that to be the case in 2024. And even during our last U.S. presidential election cycle in 2020, the government and politics vertical was not among our top 10 verticals either globally or in the U.S.

Operator: Your next question comes from the line of John Blackledge from TD Cowen. Please go ahead.

John Blackledge: Great. Thanks. Two questions. First, any color on the higher losses at Reality Labs this year? It could be the peak loss year for that segment. And then second question on Reels monetization in 2024, we have heard that the Reels overlay ads have been somewhat incremental in the back half of '23. Just curious -- any call out on Reels overlay ads or anything else that will be helpful to drive Reels monetization in 2024? Thanks.

Susan Li: On your first question, which is about Reality Labs operating losses, the overall investment portfolio is very broad and I would say we've talked a little bit about the breadth of the ambitions there across current and next generation VR, MR, and AR devices as well as metaverse social platforms.

And so we really are just investing in a -- both a very broad portfolio and then within each of those areas I would say that there's a lot of, for example, fundamental research that we are invested in in order to help solve a lot of the physics challenges we're going to have creating devices that are comfortable enough for you to wear everyday and have the computational power that would be required for them to also be a meaningful addition to your experience.

So these are really, I would say, very ambitious investments. They are intended to build the next computing platform. We haven't given any specifics on the outlook beyond 2024 but it's an area of long term and ambitious vision for us and we'll continue investing against that vision.

Chad Heaton: Yes, so on Reels monetization. So our work to increase Reels monetization efficiency really fits into two buckets. So first there's growing supply and then their second is improving performance.

In terms of the supply, we've brought Reels ad load up over the past year although it generally remains lower on a per time basis than Feed and Stories. So we'll look for opportunities to grow that in the future while balancing it against the user experience in Reels.

Longer term, we do have sort of the structural issue of Reels, which is it just has a slower scroll speed than Feed and Stories do. But we're looking at creative ways to address those constraints. For instance, putting ads in organic Reels.

In terms of the second factor I mentioned improving performance. We're making improvements in ranking, interactivity and then the different ad formats on Reels. You mentioned one of them in terms of the overlay ads. But yes, there's I think opportunities in each of those three areas.

Operator: Your next question comes from the line of Dan Salmon from New Street Research. Please go ahead. Dan, your line is open.

Your next question comes from the line of Tom Champion from Piper Sandler. Please go ahead.

Tom Champion: Hi, good afternoon. Susan, I'm curious if you could talk a little bit about Advantage+? Do you feel like this is a differentiated product that is altering market share, especially versus Search? I'm just curious what do you think there. And then, I'm wondering if you might be able to elaborate -- it seems like there are a variety of products within Advantage+ that fall under the product umbrella. Is there any way you could describe those for us or flush out the major components? Thank you.

Susan Li: Yes, sure. So, on the first part of your question, in terms of kind of the comparisons versus Search, I'm not sure about Advantage+ specifically. I think in terms of comparisons relative to Search, I think this is really about the mix of business and vertical exposure across a more Search or a more Discovery-oriented ad experience.

And that can put you in a different position in response to different macro and exogenous factors. For us, online commerce being our largest advertising vertical, we've seen that strength in that category was a tailwind in 2023, after being a headwind in 2022.

Now, online commerce is, of course, also an area that Advantage+ shopping campaigns are particularly well suited to, so this is a very natural transition into the second part of your question. And so, we certainly are continuing to see strong momentum with Advantage+ shopping. We shared in Q3 that it reached a \$10 billion annual run rate and that has continued to grow and the verticals with strongest adoption continue to be e-commerce, retail and CPG, DTCC brands. And we see the opportunity to scale adoption further among these segments.

But we're also testing how we can extend the Advantage – the capabilities of Advantage+ shopping campaigns to different use cases across our ad platform to provide end-to-end automation for other objectives. For example, in Q4 we began testing full campaign automation for lead generation ads, which allows advertisers to use AI to automatically choose the audience and where to show the ad, which creative to show, for a new objective.

Across the Advantage+ suite, we're continuing to invest in other tools that automate different steps of the campaign creation process. We launched, in Q3, the ability for advertisers to add audience inputs as a suggestion rather than a hard constraint with Advantage+ audience. So, our AI systems can deliver ads to those types of audiences as well as other people who are interested or likely to be interested in the ad. And this has now become the default audience creation experience for the majority of those advertisers.

The Advantage+ catalog ads are another area. We've expanded the ability for advertisers to use product-level videos along with static images for their catalog ads to 100% of Meta advertisers in Q4. And with these formats our system dynamically chooses the right product to show and which format to use, either video or image, across Feeds, Stories, Watch, and Reels and we're continuing to rollout background generation as part of this to enable the creation of multiple backgrounds to complement the advertiser's product images.

We also have Advantage+ Creative, where in Q4 we made our new Gen AI features around image expansion globally available. Over half of our

advertisers were already using our Advantage+ Creative enhancements to optimize images and text in their ad creative prior to this. So, we're excited to now offer additional capabilities. All this is to say, this is really, I think, becoming a suite of tools that we think really makes the ad creation, optimization, targeting process better, more streamlined, more automated, more effective for advertisers. And we intend to continue to iterate and release new features here.

Operator: Your next question from the line of Barton Crockett from Rosenblatt. Please go ahead.

Barton Crockett: Well, thank you for taking the question. I was interested in Impressions and the growth in Impressions and what that does to the user experience. How much of that is people seeing more ads per minute or per page. How much of it is just a reflection of growth in users and maybe people spending more time or clicking more pages?

And is there any risk that you see too many ads on TV or magazine that (it degrades) the experience that that could start to happen here, just given the significant growth?

Chad Heaton: Yes, I can take that. I think the growth of impressions, there's a few things going on there. One, we've been ramping impressions particularly on Reels. That's a format where we started with relatively low ad load and then over the course of the year, as we were looking to close the monetization efficiency gap, we increased the ad load.

And so that's a surface where I just think we have a lot of opportunity and we still have some opportunity. And the other thing I would note is I think we're getting better at personalization of ad load over time where we can figure out which users are most receptive to ads at what points in time and in those cases serve them higher ad loads, and then we can be more sensitive to users who might be less open to ads, it might affect their engagement and we could potentially serve them fewer ads. So I think we've just become smarter and more effective at this over time.

Kenneth Dorell: Krista, we have time for one last question.

Operator: Our last question comes from the line of Dan Salmon from New Street Research. Please go ahead.

Dan Salmon: Okay, great. Sorry about that. Thanks for taking my question again. So Susan, yesterday the company put out a post in conjunction with Mark's Senate Judiciary Committee testimony that had some interesting data on your investments in safety and security. Specifically 40,000 people overall working on it, 20 billion invested since 2016, and then \$5 billion invested over the last year alone.

Could you just unpack that \$5 billion figure a little bit more for us? Is that entirely an operating expenditure? Is that largely to compensate the 40,000 people? And how do you think that that figure might move either up or down in the years to come?

Susan Li: Thanks, Dan. So the over \$5.5 billion investment is in the privacy program. I'm just pulling up the blog post to make sure that I am looking at the same thing as you. Is that what you're referring to?

Dan Salmon: \$5 billion figure.

Susan Li: Yes. Okay. The \$5 billion was in the last year alone and we're referring to the \$20 billion investments since 2016. So this is really investment that encompasses our work across a number of teams. It includes engineering teams as well as operational teams. And it really covers the broad array of investments that we have made in different integrity, safety, and security efforts; which is an investment that we've really began ramping up in earnest in 2016.

And our expenditures in this area are factored in our upcoming 2024 guidance. We are not providing guidance on this specifically or more generally for out years. But it's an area of very high priority for us. We continue to invest aggressively here. In our integrity, safety and security efforts, these are just very important efforts for the company, and we'll continue to invest here.

Kenneth Dorell: Great. Thank you for joining us today. We appreciate you taking the time and we look forward to speaking with you again soon.

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