Meta Platforms, Inc. (META)
First Quarter 2023 Results – Prepared Remarks
April 26th, 2023

Deborah Crawford, VP, Investor Relations

Thank you. Good afternoon and welcome to Meta Platforms first quarter 2023 earnings conference call. Joining me today to discuss our results are Mark Zuckerberg, CEO and Susan Li, CFO.

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 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 over to Mark.

Mark Zuckerberg, CEO

Thanks Deborah, and thanks everyone for joining.

This was a good quarter and we're seeing growing momentum in our products and business. Our community reached the milestone that now more than 3 billion people use at least one of our apps each day. Facebook also reached the milestone of 200 million daily actives in the US and Canada after last quarter reaching 2 billion daily actives worldwide.

Now, in a moment I'll talk more about the results in our business and the opportunities that I'm excited about, but first I want to share an update on our efficiency work.

The goals of our efficiency work are to make us a stronger technology company that builds better products faster, and to improve our financial performance to give us the space in a difficult environment to execute our ambitious long term vision.

When we started this work last year, our business wasn't performing as well as I wanted. But now we're increasingly doing this work from a position of strength. Even as our financial position improves, I continue to believe that slowing hiring, flattening our management structure, increasing the percent of our company that is technical, and more rigorously prioritizing projects will improve the speed and quality of our work. I also believe that a stronger financial position will enable us to weather a volatile environment while remaining focused on our longer term priorities.

So far we've gone through two of the three waves of restructuring and layoffs that we had planned for this year -- in our recruiting and technical groups. In May we're going to carry out our third wave across our business groups. This has been a difficult process. But after this is done, I think we're going to have a much more stable environment for employees. And then for the rest of the year, I expect us to focus on improving our distributed work model, delivering AI tools to improve productivity, and removing unnecessary processes across the company.

Moving on to our products and business, we're seeing strong engagement growth across our apps and good progress on monetization efficiency, which combine to drive good business results.

Reels continues to grow quickly on both Facebook and Instagram. Reels also continue to become more social with people resharing Reels more than 2 billion times every day, doubling over the last six months. Reels are also increasing overall app engagement and we believe that we're gaining share in short-form video too.

A key theme I want to discuss today is AI. I've emphasized for a number of these calls now that there are two major technological waves driving our roadmap -- a huge AI wave today and a building metaverse wave for the future. Our AI work comes in two main areas: first, the massive recommendations and ranking infrastructure that powers all of our main products -- from feeds to Reels to our ads system to our integrity systems and that we've been working on for many, many years -- and, second, the new generative foundation models that are enabling entirely new classes of products and experiences.

Our investment in recommendations and ranking systems has driven a lot of the results that we're seeing today across our discovery engine, Reels, and ads. Along with surfacing content from friends and family, now more than 20% of content in your Facebook and Instagram feeds are recommended by AI from people, groups, or accounts that you don't follow. Across all of Instagram, that's about 40% of the content that you see. Since we launched Reels, AI recommendations have driven a more than 24% increase in time spent on Instagram.

Our AI work is also improving monetization. Reels monetization efficiency is up over 30% on Instagram and over 40% on Facebook quarter-over-quarter. Daily revenue from Advantage+ Shopping Campaigns is up 7x in the last six months.

Our work to build out business messaging as the next pillar of our business is making progress too. I shared last quarter that click-to-message ads reached a $10 billion revenue run-rate. And since then, the number of businesses using our other business messaging service -- paid messaging on WhatsApp -- has grown by 40% quarter-over-quarter.

Our success here depends on delivering results for other businesses, and at our scale that can have macroeconomic effects. We recently did a study with economists at UC Berkeley to understand the impact our services make, and they concluded that every dollar spent on our ads drives on average $3.31 in revenues for our advertisers in the US. So that means over $400 billion in economic activity annually is linked to supply chains relying on our platforms, supporting more than 3 million jobs.

Beyond recommendations, the other major focus of our AI work is foundation models to enable a lot of new use cases including generative AI.

It’s been a pretty amazing year of progress on this front, and the work happening now is going to impact every single one of our apps and services. I’m incredibly excited to ship more of the things that we're building over the coming months.

I want to share a little about our approach and what you can expect to see from us. The specifics are going to come into focus as we ship more, so these are just themes for now.

First, for our products, we’re always focused on connection and expression, and I expect that our AI work will reflect that. I think there’s an opportunity to introduce AI agents to billions of people in ways that will be useful and meaningful. We’re exploring chat experiences in WhatsApp and Messenger, visual creation tools for posts in Facebook and Instagram and ads, and over time video and multi-modal experiences as well. I expect that these tools will be valuable for everyone from regular people to creators to businesses. For example, I expect that a lot of interest in AI agents for business messaging and customer support will come once we nail that experience. Over time, this will extend to our work on the metaverse too, where people will much more easily be able to create avatars, objects, worlds, and code to tie all them together.

Next, let's talk about the technology platform to enable this. Right now most of the companies that are training large language models have business models that lead them to a closed approach to development. I think there's an important opportunity to help create an open ecosystem. If we can help be a part of this, then much of the industry will standardize on using these open tools and help improve them further. So this will make it easier for other companies to integrate with our products and platforms as we enable more integrations, and that will help our products stay at the leading edge as well.

Our approach to AI and our infrastructure has always been fairly open. We open source many of our state of the art models so people can experiment and build with them. This quarter we released our LLaMa LLM to researchers. It has 65 billion parameters but outperforms larger models and has proven quite popular. We've also open-sourced three other groundbreaking visual models along with their training data and model weights -- Segment Anything, DinoV2, and our Animated Drawings tool -- and we've gotten positive feedback on all of those as well.

Finally, let's talk about AI infrastructure and the capex. This has been a major investment for us. A couple of years ago, I asked our infra teams to put together ambitious plans to build out enough capacity to support not only our existing products but also enough buffer capacity for major new products as well. And this has been the main driver of our increased capex spending over the past couple of years. At this point, we’re no longer behind in building out our AI infrastructure, and to the contrary we now have the capacity to do leading work in this space at scale. As these new models and use cases continue scaling, we’re going to need to continue investing in infrastructure, although we'll have a better idea of the trajectory of that investment later in the year once we can gauge usage of some of the new products that we’ll launch.

Beyond AI, the other major technology wave we're focused on is the metaverse. A narrative has developed that we're somehow moving away from focusing on the metaverse vision, so I just want to say upfront that that's not accurate. We've been focusing on both AI and the metaverse for years now, and we will continue to focus on both.

The two areas are also related. Breakthroughs in computer vision were what enabled us to ship the first standalone VR device. Mixed reality is built on a stack of AI technologies for understanding the physical world and blending it with digital objects. Being able to procedurally generate worlds will be important for delivering compelling experiences at scale. And our vision for AR glasses involves an AI-centric operating system that we think will be the basis for the next generation of computing. Metaverse technologies will also help to deliver AI as well. For example, embodying AI agents will take advantage of the deep investment we've made in avatars over the last several years.

Building the metaverse is a long term project, but the rationale for it remains the same and we remain committed to it.

In the near term, we've reached a few milestones that I think are worth calling out. More than a billion Meta avatars have now been created. Since last year, the number of titles in the Quest store with at least $25 million in revenue has doubled. And more than half of Quest daily actives now spend more than an hour using their device.

The next milestone is that we're gearing up to launch our next generation consumer virtual and mixed reality device later this year. We launched Quest 2 almost three years ago at this point. It was a very big step forward for VR, and I'm really excited to show the world all the improvements and new technology that we have developed since then at a price point that will be accessible for lots of people.

That's what I wanted to cover today. We're seeing good momentum in our products and business. We have incredibly exciting opportunities ahead in our Family of Apps, AI and the metaverse. I'm confident that our efficiency work will improve our ability to execute on all of this. As always, I'm grateful for our teams for all of your work. I know this has been a challenging period, but I'm proud of the work that you're doing. And I'm also grateful for all of you for being on this journey with us. And now, over to Susan.

Susan Li, CFO

Thanks Mark and good afternoon everyone.

Let's begin with our consolidated results. All comparisons are on a year-over-year basis unless otherwise noted.

Q1 total revenue was $28.6 billion, up 3% or 6% on a constant currency basis. Had foreign exchange rates remained constant with Q1 of last year, total revenue would have been about $816 million higher.

Q1 total expenses were $21.4 billion, up 10% compared to last year.

In terms of the specific line items:

Cost of revenue increased 2%, driven by infrastructure-related costs that were partially offset by lower Reality Labs cost of goods sold.

R&D increased 22%, driven primarily by restructuring charges related to facilities consolidation and severance expenses, and headcount-related costs from our Reality Labs and Family of Apps segments, Marketing & Sales decreased 8% due mainly to lower marketing spend and headcount-related expenses.

G&A increased 22%, due primarily to restructuring charges related to severance and facilities consolidation expenses and legal-related expenses.

We ended the first quarter with over 77,100 employees, down 11% from the fourth quarter as our reported headcount no longer includes substantially all of the employees impacted by the November layoff. Employees that were impacted by layoffs in March are still included in the first quarter headcount.

First quarter operating income was $7.2 billion, representing a 25% operating margin.

Our tax rate for the quarter was 22%.

Net income was $5.7 billion or $2.20 per share.

Capital expenditures, including principal payments on finance leases, were $7.1 billion, driven by investments in data centers, servers and network infrastructure.

Free cash flow was $6.9 billion and we repurchased $9.2 billion of our Class A common stock in the first quarter. We ended the quarter with $37.4 billion in cash and marketable securities.

Moving now to our segment results.

I'll begin with our Family of Apps segment.

Our community across the Family of Apps continues to grow. For the first time, we surpassed 3.0 billion people using at least one of our Family of Apps on a daily basis in March, and approximately 3.8 billion people used at least one on a monthly basis.

Facebook continues to grow globally as well and engagement remains strong, with DAU and MAU growing sequentially across all regions in the first quarter. Facebook daily active users were 2.04 billion, up 4% or 77 million compared to last year. DAUs represented approximately 68% of the 2.99 billion monthly active users in March. MAUs grew by 53 million or 2% compared to last year.

Q1 Total Family of Apps revenue was $28.3 billion, up 4% year over year.
Q1 Family of Apps ad revenue was $28.1 billion, up 4% or 7% on a constant currency basis.

Within ad revenue, the online commerce vertical was the largest contributor to year-over-year growth, followed by healthcare and entertainment & media. Online commerce benefited from strong spend among advertisers in China reaching customers in other markets. However, other verticals remain challenged, with financial services and technology verticals being the largest negative contributors to year-over-year growth.

On a user geography basis, ad revenue growth was strongest in Rest of World at 9%, followed by North America and Asia-Pacific at 6% and 4%, respectively. Europe declined 1%. Foreign currency remained a headwind to advertising revenue growth in all international regions.

In Q1, the total number of ad impressions served across our services increased 26% and the average price per ad decreased 17%. Impression growth was primarily driven by Asia-Pacific and Rest of World. The year-over-year decline in pricing was primarily driven by strong impression growth, especially from lower monetizing surfaces and regions, foreign currency depreciation and lower advertising demand. While overall pricing remains under pressure from these factors, we believe our ongoing improvements to ad targeting and measurement are continuing to drive improved results for advertisers.

Family of Apps other revenue was $205 million in Q1, down 5%, as strong business messaging revenue growth from our WhatsApp Business Platform was more than offset by a decline in other line items. We continue to direct the majority of our investments toward the development and operation of our Family of Apps. In Q1, Family of Apps expenses were $17.1 billion, representing approximately 80% of our overall expenses. FoA expenses were up 9% due primarily to restructuring charges and growth in infrastructure-related costs.

Family of Apps operating income was $11.2 billion, representing a 40% operating margin.

Within our Reality Labs segment, Q1 revenue was $339 million, down 51% due to lower Quest 2 sales. Reality Labs expenses were $4.3 billion, up 18% due mostly to employee-related costs and restructuring charges.

Reality Labs operating loss was $4.0 billion.

Next, I'll discuss our ongoing monetization work.

As I mentioned last quarter, there are two primary levers to increasing monetization - growing supply and demand.

On the ad supply side, our foremost focus remains on building engaging experiences for our community and we are continuing to make encouraging progress on our product priorities. Our investments in the discovery engine are delivering results. In feed recommendations are contributing to engagement, and we’ve seen Reels time become more incremental to overall engagement on our services as we continue to improve our recommendation system. This is an important signal because it demonstrates that people are finding added value from the content we’re helping them discover.

Beyond that, we continue to focus on further narrowing the gap in monetization efficiency, or monetization per time, between Reels and our more mature surfaces, Feed and Stories. There are structural supply constraints with the Reels format as people view a Reel for a longer time than a piece of Feed or Stories content, which results in fewer opportunities to serve ads in between posts. That will likely make it more challenging to close the monetization efficiency gap than it was with Stories. However, the overall economics of Reels will be determined by a combination of our ability to continue growing monetization per time on Reels and our ability to drive incremental engagement from Reels. As Mark noted, we have seen a 24% increase in overall time spent on Instagram from our ranking improvements since launching Reels globally. We continue to expect that Reels will become neutral to overall ad revenue by the end of this year or early next year.

The other side of monetization is growing advertiser demand. One area of focus is around driving advertiser performance - and we are seeing continued strong conversion growth for advertisers which we believe, coupled with lower costs per action, is driving higher return on investment. We remain focused on continuing to improve ads ranking and measurement with our ongoing AI investments, while also leveraging AI to power increased automation for advertisers through products like Advantage+ Shopping, which continues to gain adoption and receive positive feedback from advertisers. These investments will help us develop and deploy privacy-enhancing technologies and build new, innovative tools that make it easier for businesses to not only find the right audience for their ad, but also optimize and eventually develop their ad creative.

Scaling onsite conversions is another important part of our work and Click-to-message ads continue to grow and bring incremental demand on to our platform. This format is mostly used by smaller advertisers today in Southeast Asia and Latin America and one of the exciting opportunities ahead is to expand adoption to larger advertisers in more markets by investing in increased automation and reporting to help businesses more easily manage messages and measure results at scale.

Before turning to our revenue outlook, I'd also like to talk about our operating philosophy given the recent significant changes to our investment plans. We believe increasing our organizational efficiency is vital to our long-term success. This will increase the speed of execution and agility to ensure we are constantly innovating for the people who use our services. Narrowing the scope of the projects that we're working on allows us to increase our focus on the highest leverage opportunities for the company, including AI today and the Metaverse longer-term. It also enables us to invest in these areas while maintaining a strong financial position.

As we look forward, I also expect that we will modestly evolve our capital structure over time to improve our overall cost of capital. We expect to do so through periodically accessing the debt markets to diversify our funding sources while still maintaining a positive or neutral net cash balance over time.

In addition, we continue to monitor ongoing regulatory developments. We expect the IDPC to issue a decision in May in its previously disclosed inquiry relating to transatlantic data transfers of Facebook EU/EEA user data, including a suspension order for such transfers and a fine. Our ongoing consultations with policymakers on both sides of the Atlantic continue to indicate that the proposed new EU-U.S. Data Privacy Framework will be fully implemented before the deadline for suspension of such transfers, but we cannot exclude the possibility that it will not be completed in time. We will also evaluate whether and to what extent the IDPC decision could otherwise impact our data processing operations even after a new data privacy framework is in force.

Turning now to the revenue outlook.

We expect second quarter 2023 total revenue to be in the range of $29.5-32 billion. Our guidance assumes foreign currency headwinds will be less than 1% to year-over-year total revenue growth in the second quarter, based on current exchange rates.

Turning now to the expense outlook.

We anticipate our full-year 2023 total expenses will be in the range of $86-90 billion, updated from our prior outlook provided in March. This outlook includes $3-5 billion of restructuring costs related to facilities consolidation charges and severance and other personnel costs. We continue to expect Reality Labs operating losses to increase year-over-year in 2023.

Turning now to the capex outlook.

We expect capital expenditures to be in the range of $30-33 billion, unchanged from our prior estimate. This outlook reflects our ongoing build out of AI capacity to support ads, Feed and Reels, along with an increased investment in capacity for our Generative AI initiatives.

On to tax. Absent any changes to U.S. tax law, we expect our full year 2023 tax rate percentage to be around 20%.

In closing, Q1 was a solid quarter for our business. Our global community continued to grow, we made important progress on our company priorities and improved the efficiency of our operations and while strengthening the financial position of the company, which sets us up well to execute on the opportunities ahead.

With that, Dave, let’s open up the call for questions.