

Meta Platforms, Inc. (META)
Fourth Quarter 2024 Results Follow Up Call
January 29th, 2025

Operator: Good afternoon, my name is Krista, and I will be your conference operator today. At this time I would like to welcome everyone to the Meta Fourth Quarter and Full Year 2024 Results Follow up Q&A call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, please press star followed by the number one on your telephone keypad. To withdraw your question, again, press star one. We ask that you limit yourself to one question and this call will be recorded. Thank you very much. Kenneth Dorell, Meta's Director of Investor Relations, you may begin.

Kenneth Dorell: 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 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, investor.atmeta.com. And now I'd like to turn the call back over to Krista for the first question.

Operator: Thank you. We will now open the lines for a question and answer session. To ask a question, please press star one on your touch tone phone. To withdraw your question, again, press star one. We ask that you limit yourself to one question. Please pick up your handset before asking your question to ensure clarity. If you are streaming today's call, please mute your computer speakers. And your first question comes from the line of James Lee with Mizuho Securities. Please go ahead.

James Lee: Great. Thanks for taking my question. Susan, I was wondering maybe you can comment about WhatsApp a little bit here. Give us an update on where you are in terms of AI agent for business and what are the key lessons learned. And can you also talk about the product launch to non-English speaking countries going forward? Thanks.

Susan Li: Hi James. Thank you for the question. So, we are still in the early stages of piloting business AIs, with a relatively small number of businesses, but we are gradually expanding our tests. Our focus initially right now is on supporting businesses that use click to message ads for WhatsApp and Messenger. With WhatsApp, we have been rolling out the service in English to more small businesses in India.

We have been expanding to several other countries in Asia-Pacific including Indonesia and Malaysia. We're also now slowly expanding business AIs in Spanish across Latin America including Mexico. And on Messenger, we're testing in English across several Asia-Pac countries including the Philippines, Singapore, Malaysia, and expanding to Spanish speaking Latin America also.

So, I would say we're early. We're continuing to hear encouraging feedback as we expand our tests. Businesses are telling us that the AI saves them time, while consumers note that they get more timely response times to their inquiries. The new Business AI product group that we've stood up is really in service of accelerating our efforts to scale business AIs. We're making investments across the board in technology and go to market efforts and our partner ecosystem.

We are really focused on helping businesses use AIs to drive ad conversions, in terms of the use cases that we want to expand into. So, we are looking at how we can activate AI and chats to support commerce use cases, to help generate or qualify leads. Our ultimate ambition is to build AI products that businesses can use across a variety of use cases to deepen their customer relationships, and to make the entire sort of transaction process more efficient.

But there is, you know, there's a lot to do in this roadmap. It's very ambitious. We have a lot we have to execute on. We have to enable more access to business data and systems so that the AI can respond and take action appropriately.

We have to build richer in-thread experiences. So, I think it's going to take time. We're working hard towards this. It's a very big priority for us in 2025 across all of these areas. And it's another area too where we expect it to benefit from the sort of parallel continued advances in Llama as well, which should further increase the quality of responses and enable new capabilities.

Operator: Your next question comes from the line of Mark Mahaney with Evercore ISI. Please go ahead.

Mark Mahaney: OK, thanks. Could I throw a couple of real quick ones by? Does the total expense guidance for the year include severance costs related to the recent 5% reduction and how material are those? When you talk about headcount growth in fiscal '25, is it reasonable to assume that what we've seen the last two quarters is kind of high single digit percent is what's kind of implied in what you're talking about?

And then, if I could ask you just again about DeepSeek, and I liked how Mark addressed it. It's hard to see how there isn't some wonderful efficiency hacks and cost hacks that have really come out of what we've learned about DeepSeek in the last week and maybe in the last month or two.

And it's kind of hard to see how you wouldn't be able to draw on that at some point and really get kind of either a much greater, well, much greater ROAI from all of your investment or give you the toggle ability to reduce your AI. Am I thinking about that incorrectly, Susan? It seemed I'm pretty bullish on what the implications of this are for your cost structure going forward. But am I wrong? Thank you.

Susan Li: Thank you. I'm going to try and get to all the components and you'll have to let me know if I missed anything. So, the first thing is, does the Total Expense Guide include the effects of severance related to the announced performance based layoffs? It does. So, that Total Expense Guide is inclusive of sort of everything that's in our current outlook. It also includes the savings related to the extension of server useful life.

So, it would have been higher without that. I don't think we have quantified what the severance related costs are. So, I don't think we're breaking that out. I will transition that into the headcount growth question. So, it's not a 5% reduction in force. Those roles are roles that can be backfilled. So, we're not expecting that the total size of the company is going to shrink by 5%.

And then we aren't quantifying the growth rate of headcount in 2025. But we've talked about what areas are growing and where are the areas that we are being very efficient as far as we can. And then the final part of your question was about DeepSeek?

Mark Mahaney: Yes.

Susan Li: And yes, sorry, thank you. Just trying to stay on track here. Look, so I think I'm really mostly echoing what Mark has said. We both think that DeepSeek has made good research strides on model design and efficiency. To your point, we are looking at what we can learn from what they have released and where it makes sense for us to make adaptations. I think we will. So again, we're looking forward to learning from them.

At the same time, you heard Mark say, we remain committed to investing in infrastructure for training and inference. Both because, again, we don't know exactly what we'll need, we don't know exactly how broad our inference use cases will be, and we think this is a real source of competitive advantage for us. So, I both share your excitement that there will be room in the future to run some of this work more efficiently. But at the same time, I would reiterate my earlier comments that we are early in these stages of what the CapEx investments could look like and we don't really know yet how the entire landscape will evolve.

Mark Mahaney: Thanks.

Susan Li: Your next question comes from the line of Stephen Ju with UBS. Please go ahead.

Stephen Ju: All right, thank you. So, I think -- I don't want to put words in your mouth, Susan, but I think throughout the course of last year, you might have indicated some amount of frustration that your growth rate for advertising might have been slowed down by capacity constraints. So, is it kind of fair to think that as you put up this CapEx budget for this year, I guess the shackles kind of come off a little bit in terms of what you're going to be able to do, to grow your ad franchise.

And also, I think what you've also spoken about how culturally in some parts of the world there's a greater propensity for users to be chatting with merchants on WhatsApp and Messenger, et cetera. So, is that kind of behavior something you need to drive in some of the more developed markets where we may not be doing as much of that to make business AI more useful? Thanks.

Susan Li: Yes. Thank you, Stephen, for the question. So, on the capacity constraint side, we expect that we are going to alleviate a lot of our capacity constraints in the first half of this year as we are bringing more data center space online, and we're also working to increase the efficiency of our workloads to free up more capacity. But we're also just focused on other investments in improving ad performance more generally, too.

On the second question, about sort of cultural differences and organic commercial behavior and the degree to which there is an organic business messaging ecosystem, I think you are right.

You probably noticed that the comments that I, in my earlier comments about where business AIs have already launched, that reflects the markets where we know that there is a lot of this behavior already, and we know that we're going to need to invest more aggressively to figure out how to go to market in markets that have for various historical reasons not evolved down that path.

And so, that is one of the challenges, I think, in standing up business messaging more broadly, but also one of the places where we think there's opportunity for AI to really bring down the cost of the business end of that conversation in a way that makes those conversations and engagements scalable for businesses in developed markets over time.

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

Youssef Squali: Thank you very much. Hi, Susan. In the weeks and days leading up to a TikTok shutdown, even though I think it only lasted technically about 14 hours, did you see any change in advertiser behavior and/or their spend on the platform?

And just a housekeeping question on gross margins for '25. I know you don't guide, but with the material growth in CapEx planned for the year and the

extension of the useful life of servers to, I think, five and a half years, how do you think that will impact gross margins for the year? Could they -- could those two offset each other?

Susan Li: On the first question, as you noted, the actual TikTok outage was very short. So the impact was not material, certainly, in our Q1, either revenue or engagement metrics. And I don't think we really have more specifics to share on that front. Our focus really is just on building the best services for our community and driving growth through that work.

And Mark articulated a quite ambitious roadmap across all of our GenAI core technology and product bets this year. So I will -- and then Chad is going to take the second question.

Chad Heaton: Yeah. So in terms of the gross margins, we're not sharing a gross margin outlook for 2025. I will say the primary driver of cost of revenue growth in 2025 is going to be infrastructure costs, followed by Reality Labs.

Operator: Your next question comes from the line of Shweta Khajuria with Wolfe Research. Please go ahead.

Shweta Khajuria: Thanks a lot for taking my questions. Actually, I have a question on Reality Labs. So Susan, where are you in terms of spend? Well, first of all, what are the major spend buckets, if you could articulate, that you expect for 2025, and where are you in terms of the magnitude of spend for Reality Labs? Is it fair to think that maybe the spend -- Reality Labs spend is peaking? Thanks a ton.

Susan Li: Thank you for the question. So, broadly speaking, we think our Reality Labs investments are kind of spread across two categories; Metaverse, which includes the VR, MR, and social platform initiatives. And Wearables, which includes our AR and AI glasses work, and we expect in 2025 that roughly half of our Reality Labs investment will be across the Wearables initiatives and the remaining half on Metaverse.

And I would say in each of those areas, there are still -- there are big product bets we're making and there's sort of a deep technological set of challenges that we know that we need to unlock in order to be able to bring scalable consumer products to market, which is ultimately what we're really focused on. So, it remains one of our core investment priorities. We do anticipate that operating losses in Reality Labs will increase in 2025 as they did in 2024.

In terms of the increase, we expect our Wearables devices to be the primary driver of Reality Labs operating losses growing in 2025 across both cost revenue and operating expenses. And that really comes from our efforts to further accelerate the adoption of our AI glasses products.

Operator: Your next question comes from the line of Dan Salmon with New Street Research. Please go ahead.

Dan Salmon: Great. Thanks. Good evening, everyone. So, Susan, you mentioned, obviously, there's some gray areas that can exist between different categories of CapEx - sort of older generations of GPUs can be used for core functions. But if I come back to that definition of, I think you called it sort of AI infrastructure, core AI infrastructure, non AI infrastructure, can you give any color on how you define those buckets a little bit more?

And then I may have missed the detail on the call, but does the five and a half year useful life apply to servers in all of those groups?

Susan Li: Yes, so the way I would roughly think about it is Gen AI capacity is the capacity that we are putting towards primarily right now training our next generations of Llama models. So, it is mostly training capacity, but we anticipate and hope that there will be inference, a lot of demand for inference capacity in the future. Core AI really refers to the capacity that is powering our ranking and recommendation engines that underly both the organic content experience.

You've probably heard us use the word discovery engine to describe that as well as the ads experience. So, basically figuring out which of the many pieces of ads and organic content any given person will most likely find interesting and useful in their experience. And then non-AI refers to the things that are not in those two buckets.

For example, the capacity that it takes to serve you a video stream, that sort of thing would fall into non AI. So, those are the three buckets. And I think I shared color on the call that we expect total infrastructure spend within each of those buckets to increase in 2025 with the majority of our CapEx going towards the core business.

But, again, as you alluded to, it is not a perfectly clear allocation. And the useful life extension does apply across all of the categories.

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

Michael Nathanson: Thanks. Hey, Susan. I have two for you. One is an answer to that question of Dan's about you defining some of the spend.

I wondered, has there been -- can you help us understand where the capital intensity has rolled out by geography to help on the rankings and ad experience side? Because I'm trying to look at the average pricing; I know there's a lot going on there.

But is there any that you can add of geographies that you've rolled out these AI initiatives and where we're seeing it? That would be very helpful. And secondly, on Reality Labs, how are you measuring the ROI, right? I know there are a lot of nascent ideas here that have never been done before. So how are you as a CFO testing whether or not the spend is working or not working? Thanks.

Susan Li:

Thanks, Michael, for the question. So on your first one, I would say -- I'm trying to make sure I'm approaching the question correctly.

So in terms of where CapEx has rolled out or is being deployed by geography, I would say in the core AI use cases, which is where it's being used to do things like improve the next generation of ads architecture models, where it's being used for something like Andromeda, which I described in the call, that's not a geographically isolated thing.

So generally, features that we release to improve ads performance, these sort of ranking and recommendation systems, the delivery back-end, those sorts of things -- outside of testing, tend to be rolled out broadly across the world.

The GenAI initiative specifically, the business AIs, which we talked about earlier, the tests are actually being done in, again, these markets where business messaging is already up and running and where we already have a thriving click-to-messaging ads ecosystem.

So that tends to be more like Southeast Asia, Latin American countries. But a lot of the sort of fundamental work that we're doing to continue investing in ads growth, things like making sure that we are rolling out different ads features that might be vertical-specific to other verticals, things like that. Those don't have any particular geographic bounds on them.

On the second question, which is about Reality Labs, I think that this is a place where I think Mark has kind of articulated that the vision for Reality Labs really is about building the next computing platforms, right? And to the extent that we succeed at doing that, both that will give us, I think, a really important position in terms of shaping the next computing platform and building ecosystems on top of it that we think will be very complementary to the way the Family of Apps works today.

And I think building businesses on top of that will be also, I think, a natural extension of both how our ad business works today, but you can imagine that there will be also new businesses unlocked around digital items and things like that.

But in the nearer term, I think one of the things that is driving the way we think about the 2025 investment is we are really more bullish on the importance of wearables specifically, right? And I think that has pulled our timetable on the next computing platform up. So we're really expecting to continue to invest heavily in the wearables category to help accelerate that.

And Mark has outlined his goal of 5 to 10 million units on the next generation. And then eventually that gets you hopefully on a path to hundreds of millions of units and to really a scale consumer product. But it is a place where obviously we are paving the way in the market, and that requires investment on our part.

Operator: Your next question comes from the line of Mark Kelley with Stifel. Please go ahead.

Mark Kelley: Great. Thanks very much. I'll just keep it to one. I was hoping maybe, with RFK Jr. going through this confirmation hearings process, we've been asked about pharma advertising across the digital companies. Is there any way for us to think about your exposure to pharma overall? Certainly, I know there's a lot we don't know yet. But any way for us to frame that, if things do change in terms of how pharma companies are able to advertise? Thank you.

Susan Li: I don't think that's something that we have shared specifically. Now, I would just say broadly, that we have a very diversified advertising business across a very large range of both geographic and vertical exposure. So, I wouldn't say that this is something that's weighing on our 2025 outlook.

Operator: Your next question comes from the line of Rich Greenfield with LightShed Partners. Please go ahead.

Rich Greenfield: Hi. Thanks for taking the question. I guess this is sort of philosophical and expands upon how Mark opened up the call. He talked about getting to the billion users. And as you think about the AI landscape, Susan, so much of the Internet and digital has been winner-take-most. How do you think this plays out?

I mean, again, just in the context of what's happened with DeepSeek over the last five weeks. Alibaba announced today. What is the framework that we should be -- or that you think about? Forget about what we think about. What do you think? How do you think this landscape and AI plays out in terms of, what share goes where? And is it different than past digital and Internet cycles?

Susan Li: That's a really interesting question. I think the part that I feel most equipped to speak about is I think we have a lot of plausible paths to build businesses on top of the leading AI technology. And those businesses are in some cases extensions of what we already do.

So, whether it is, the fact that GenAI will come up with a lot of fundamentally new and easier ways to create compelling content for our ecosystem is clearly sort of very accretive to the experience on the Family of Apps. I think our ability to make our ads better, for example, using sort of these technologies to help advertisers run extremely customized campaigns at scale. Whether it's to build a richer business messaging ecosystem, or whether it's, Meta AI, which is our consumer version of the experience.

I think there are a lot of avenues for us to really build both adjacent businesses that intuitively make sense given where our existing businesses are, and also where the size of the opportunity is really meaningful.

I think it's probably harder to opine on how the rest of the landscape plays out. But I feel very good about the opportunities that we have to really build great businesses in this landscape.

Operator: Your next question comes from the line of Deepak Mathivanan with Cantor Fitzgerald. Please go ahead.

Deepak Mathivanan: Great. Susan, can I ask a couple of questions? So first, Clara, obviously, is a huge addition to the team. Can you discuss some areas where Clara and her team can have a big impact in the near to medium term on the enterprise and SMB side? Do you think there's opportunities to monetize Llama maybe as APIs or subscriptions or more directly through some cloud services? So that's the first question.

And then wanted to also ask about the disclosure on Advantage+ Shopping revenue run rate. It's about 10% of the total revenues as you roll out the streamlined campaign creation as the default option, to a broader set of advertisers. Is that something that's going to be relevant for all types of advertisers or certain specific categories? Basically, just trying to figure out how much performance gains that you saw with Advantage+ can scale further. Thank you so much.

Susan Li: Thank you for the questions. So I'll start with your second question first, on Advantage+ shopping. I think you were asking about the new simplified campaign setup flow that we began testing in Q4. That basically combined Advantage+ shopping and Advantage+ app campaigns with the manual setup flows.

So in the new design, there's now one campaign creation flow. Advertisers get the performance benefits of Advantage+, by default. Previously, they had to choose between setting up a manual or automated solution. And they'll still have the access to features that were available previously if they prefer to manually adjust settings.

But in general, we think both the new simplified flow is going to help advertisers leverage the performance gains enabled by Advantage+, and then we also plan to expand these tests to more advertisers in Q1 before we roll it out more widely in the following months.

But again, this is an area where we're generally excited about because we have seen, at least in our studies, that advertisers see meaningful gains in return on ad spend, after they adopt Advantage+ shopping campaigns. So, we're optimistic that helping them do that more easily will benefit their performance.

Your first question, which was about the addition of Clara to our team, we're very excited to have her. Her initial focus is on universal business agents, which we believe will combine our strengths in AI with our messaging platforms like WhatsApp and Messenger.

And, I think I alluded to this earlier, but this product group that we have stood up that she is leading is, is really going to, we hope, accelerate our efforts to scale business AIs. And it's where we are, again, investing in both the

technology, the go-to-market efforts, making sure that there's a rich partner ecosystem, et cetera. So we're very excited to have her on board.

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

Operator: And that question comes from the line of Aaron Kessler with Seaport Research. Please go ahead.

Aaron Kessler: Great. Thank you. Maybe just on the Q1 revenue guidance, any more color there? Seems like it's maybe a little bit conservative, just given the strength that we saw in Q4. It looks like you do have a little bit of a tougher comp from last year, Q1, as well as FX. So is that the right way to think about maybe why the guide wasn't a bit higher? Thank you.

Susan Li: Yes, I mean, there are a range of outcomes embedded in the Q1 outlook. Overall, it reflects our expectation for continued strong constant currency revenue growth. But the largest factor driving the decel on a reported basis is currency, so that we expect to be a three-point headwind in Q1 after being approximately neutral to revenue in Q4, just with the Dollar strengthening, in particular against the Euro.

Beyond currency, we are lapping a period of stronger demand in Q1 of last year, which included a benefit from leap day in 2024. And political ad spending is also not expected to be the same tailwind to year-over-year growth as it was in Q4 since we're coming off of the U.S. election.

So, our outlook reflects all of these impacts, but overall, ad demand remains healthy. We continue to see opportunity to drive strong revenue growth throughout 2025, and we're excited about the investments that we're making in our core business. And I think with that, we're going to wrap, so thank you, everyone, and happy Lunar New Year.

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