10Q 2023 Q2

- Revenues by source & User Geography:

Revenue disaggregated by revenue source and by segment consists of the following (in millions):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Advertising	$ 31,498	$ 28,152	$ 59,599	$ 55,150
Other revenue	225	218	430	433
Family of Apps	31,723	28,370	60,029	55,583
Reality Labs	276	452	616	1,146
Total revenue	$ 31,999	$ 28,822	$ 60,645	$ 56,729

Revenue disaggregated by geography, based on the addresses of our customers, consists of the following (in millions):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
United States and Canada (1)	$ 12,404	$ 12,186	$ 23,854	$ 23,965
Europe (2)	7,515	6,650	14,274	13,288
Asia-Pacific	8,551	6,960	15,843	13,682
Rest of World (2)	3,529	3,026	6,674	5,794
Total revenue	$ 31,999	$ 28,822	$ 60,645	$ 56,729

(1) United States revenue was $11.66 billion and $11.43 billion for the three months ended June 30, 2023 and 2022, respectively, and $22.45 billion and $22.52 billion for the six months ended June 30, 2023 and 2022, respectively.

(2) Europe includes Russia and Turkey, and Rest of World includes Africa, Latin America, and the Middle East.

- **2023 RESTRUCTURING:**
  - Announced 3 rounds of planned layoffs to further reduce company's size by approximately 10K employees.
    - May take through the end of 2023 or longer to complete layoffs.
    - Expect to incur total pre-tax severance and related personnel costs of approximately $1.2B of which $1.12B was recognized during the six months ended June 30, 2023.
    - Expect the remaining severance liabilities as of June 30, 2023 to be substantially paid out in cash by the end of 2023.

A summary of our 2023 Restructuring pre-tax charges recorded for severance and related personnel costs in the three and six months ended June 30, 2023 is as follows (in millions):

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Research and development	$ 142	$ 466
Marketing and sales	217	222
General and administrative	237	431
Total (1)	$ 596	$ 1,119

(1) Total severance and related personnel costs include $40 million and $102 million of share-based compensation expense recognized for the 2023 layoffs during the three and six months ended June 30, 2023, respectively.

During the three and six months ended June 30, 2023, total restructuring charges recorded under our FoA segment were $569 million and $1.04 billion, respectively, and $27 million and $82 million under our RL segment, respectively.

The following is a summary of changes in the accrued severance and other personnel liabilities related to 2023 layoff activities, included within accrued expenses and other current liabilities on the condensed consolidated balance sheets (in millions):

	Severance Liabilities
Balance as of January 1, 2023	$ —
Severance and other personnel costs	1,017
Cash payments	(339)
Balance as of June 30, 2023	$ 678

Note 6. Non-marketable Equity Securities

Our non-marketable equity securities are investments in privately-held companies without readily determinable fair values. The following table summarizes our non-marketable equity securities that were measured using measurement alternative and equity method (in millions):

	June 30, 2023	December 31, 2022
Non-marketable equity securities under measurement alternative:		
Initial cost	$ 6,389	$ 6,388
Cumulative upward adjustments	293	293
Cumulative impairment/downward adjustments	(533)	(497)
Carrying value	6,149	6,184
Non-marketable equity securities under equity method	59	17
Total	$ 6,208	$ 6,201

- Long-term debt:

Note 10. Long-term Debt

As of June 30, 2023, we had $18.50 billion of fixed-rate senior unsecured notes (the "Notes"), including $10.0 billion issued in August 2022 and $8.50 billion issued in May 2023. The following table summarizes the Notes and the carrying amount of our debt (in millions, except percentages):

	Maturity	Stated Interest Rate	Effective Interest Rate	June 30, 2023	December 31, 2022
August 2022 debt:					
2027 Notes	2027	3.50%	3.63%	$ 2,750	$ 2,750
2032 Notes	2032	3.85%	3.92%	3,000	3,000
2052 Notes	2052	4.45%	4.51%	2,750	2,750
2062 Notes	2062	4.65%	4.71%	1,500	1,500
May 2023 debt:					
2028 Notes	2028	4.60%	4.68%	1,500	
2030 Notes	2030	4.80%	4.90%	1,000	
2033 Notes	2033	4.95%	5.00%	1,750	
2053 Notes	2053	5.60%	5.64%	2,500	
2063 Notes	2063	5.75%	5.79%	1,750	
Total face amount of long-term debt				18,500	10,000
Unamortized discount and issuance costs, net				(118)	(77)
Long-term debt				$ 18,382	$ 9,923

Each series of the Notes in the table above rank equally with each other. Interest on the Notes is payable semi-annually in arrears. We may redeem the Notes at any time, in whole or in part, at specified redemption prices. We are not subject to any financial covenants under the Notes. For the three and six months ended June 30, 2023, interest expense, net of capitalized interest, recognized on the debt was $110 million and $159 million, respectively.

- Liabilities:
  - Significant increase in legal-related accruals which includes estimated fines, settlements or other losses in connection with legal and related matters, as well as other legal fees.

The components of accrued expenses and other current liabilities are as follows (in millions):

	June 30, 2023	December 31, 2022
Legal-related accruals [(1)]	$ 7,456	$ 4,795
Accrued compensation and benefits	4,338	4,591
Accrued property and equipment	2,306	2,921
Accrued taxes	5,837	2,339
Other current liabilities	4,723	4,906
Accrued expenses and other current liabilities	$ 24,660	$ 19,552

- Contractual Commitments

Contractual Commitments

We have $19.68 billion of non-cancelable contractual commitments as of June 30, 2023, which are primarily related to our investments in servers, network infrastructure, and consumer hardware products in Reality Labs. The following is a schedule, by years, of non-cancelable contractual commitments as of June 30, 2023 (in millions):

The remainder of 2023	$ 12,346
2024	2,836
2025	1,414
2026	301
2027	213
Thereafter	2,573
Total	$ 19,683

Additionally, as part of the normal course of business, we have entered into multi-year agreements to purchase renewable energy that do not specify a fixed or minimum volume commitment or to purchase certain server components that do not specify a fixed or minimum price commitment. We enter into these agreements in order to secure either volume or price. Using the projected market prices or expected volume consumption, the total estimated spend as of June 30, 2023 is approximately $12.27 billion, a majority of which is due beyond five years. The ultimate spend under these agreements may vary and will be based on prevailing market prices or actual volume purchased.

- Legal and Related Matters:
  - Specifies what is included in the assumptions of the liabilities mentioned above.
  - Specifies FTC proceeding filed on May 2023 seeking changes to modified consent order that took effect on April 2020, looking to prohibit the use of minors' data for any commercial purposes, changes to the composition of board of directors, and significant limitations to ability to modify and launch new products. Meta filed a motion to enjoin the FTC from further pursuing this.
  - Specifies fine from IDPC of $1.2B due to data transfer from Europe.
  - Specifies its exposure to lawsuits due to antitrust laws as well as violations of securities laws.
- Share Repurchase Program:
  - Our board of directors has authorized a share repurchase program of our Class A common stock, which commenced in January 2017 and does not have an expiration date. As of December 31, 2022, $10.87 billion remained available and authorized for repurchases under this program. In January 2023, an additional $40 billion of repurchases was authorized under this program. During the six months ended June 30, 2023, we repurchased and subsequently retired 60 million shares of our Class A common stock for an aggregate amount of $10.01 billion, including $59 million related to the 1% excise tax on net share repurchases as a result of the Inflation Reduction Act of 2022. As of June 30, 2023, $40.91 billion remained available and authorized for repurchases.
- Share-based Compensation Plan:

    - Plan was amended effective March 1, 2023 increasing the number of shares reserved for issuance.
    - As of June 30, 2023, there were 475 million shares of our Class A common stock reserved for future issuance under our Amended 2012 Plan - these are RSUs not options.
- Possible impact of IRS notice from 2016 which still isn't closed:
    - Based on the information provided, we believe that, if the IRS prevails in its updated position, this could result in an additional federal tax liability of an estimated, aggregate amount of up to approximately $9.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted.
    - Expect Tax Court to issue an opinion in 2024.
- Segment Information:

The following table sets forth our segment information of revenue and income (loss) from operations (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue:				
Family of Apps	$ 31,723	$ 28,370	$ 60,029	$ 55,583
Reality Labs	276	452	616	1,146
Total revenue	$ 31,999	$ 28,822	$ 60,645	$ 56,729
Income (loss) from operations:				
Family of Apps	$ 13,131	$ 11,164	$ 24,351	$ 22,647
Reality Labs	(3,739)	(2,806)	(7,732)	(5,766)
Total income from operations	$ 9,392	$ 8,358	$ 16,619	$ 16,881

- **EXECUTIVE OVERVIEW OF Q2 RESULTS:**
    - Income from operations +12%: due to increase in advertising revenue, partially offset by increases in costs and expenses such as higher accruals in ongoing legal proceedings and restructuring charges.

Consolidated and Segment Results

We report our financial results for our two reportable segments: Family of Apps (FoA) and Reality Labs (RL). FoA includes Facebook, Instagram, Messenger, WhatsApp, and other services. RL includes our augmented and virtual reality related consumer hardware, software, and content.

	Family of Apps			Reality Labs			Total		
	Three Months Ended June 30,			Three Months Ended June 30,			Three Months Ended June 30,		
	2023	2022	% change	2023	2022	% change	2023	2022	% change
	(in millions, except percentages)								
Revenue	$ 31,723	$ 28,370	12%	$ 276	$ 452	(39)%	$ 31,999	$ 28,822	11%
Costs and expenses	$ 18,592	$ 17,206	8%	$ 4,015	$ 3,258	23%	$ 22,607	$ 20,464	10%
Income (loss) from operations	$ 13,131	$ 11,164	18%	$ (3,739)	$ (2,806)	(33)%	$ 9,392	$ 8,358	12%
Operating margin	*41 %*	*39 %*		*(1,355)%*	*(621)%*		*29 %*	*29 %*	

- Headcount was 71,469 as of June 30, 2023, a decrease of 14% year-over-year. Approximately half of the employees impacted by the 2023 layoffs are included in our reported headcount as of June 30, 2023.
- Restructuring:
    - Additional costs lowered margins by 2 percentage points during Q2.
    - Expect total pre-tax restructuring charges to be $4B for full-year 2023, of which $1.92B was recognized during the six months ended June 2023.
- Investing Philosophy:
    - Expect majority of investments in 2023 to be in data center capacity, servers, and network infrastructure supporting FOA + RL.
    - In the 6 months ended June 30, 81% of total costs and expenses were recognized in FoA and 19% were recognized in RL.
- ARPP was $8.32 - an increase of 5% vs 2nd quarter of 2022. Similar values to 2021.

RESULTS OF OPERATIONS

FACTOR	VARIATION YOY	DRIVER
Revenue	+12%	• Family of Apps +12% • The increase was mostly driven by advertising revenue. • Advertising +12% ○ Avg Price per Ad -16%: • The decreases in average price per ad were driven by increases in the number of ads delivered, especially in geographies and in products, such as Reels, that monetize at lower rates, and an unfavorable foreign exchange impact.

<table>
<tr><td></td><td></td><td>
While the average price per ad declined, we believe the improvements to our ad targeting and measurement tools have a favorable impact on our ad performance and advertising demand.
# of ads delivered +34%:
Ad impressions increased in all regions.
driven by increases in the number and frequency of ads displayed across our products and an increase in users.
In addition, year-over-year advertising revenue growth was driven mainly by marketer spending in online commerce, the entertainment and media industries, and consumer packaged goods.
We anticipate that future advertising revenue will be driven by a combination of price and the number of ads delivered.
Other revenue +3%
Reality Labs -46%
The decrease in RL revenue was driven by a decrease in the volume of Meta Quest sales.
The general strengthening of the U.S. dollar relative to certain foreign currencies for the three and six months ended June 30, 2023 compared to the same periods in 2022 had an unfavorable impact on revenue.
</td></tr>
<tr><td>Cost of Revenue</td><td>+15%</td><td>The increases were primarily driven by higher operational expenses related to our data centers and technical infrastructure. In the six months ended June 30, 2023, the increase was partially offset by a decrease in content costs.</td></tr>
<tr><td>R&D</td><td>+8%</td><td>The increases were mainly from higher payroll and related expenses driven by an increase in share-based compensation expenses. To a lesser extent, restructuring charges related to facilities consolidation and severance and other personnel costs also contributed to the increases.</td></tr>
<tr><td>Marketing & Sales</td><td>-12%</td><td>The decreases were mostly due to decreases in marketing and promotional expenses as well as payroll and related expenses. The payroll and related expenses decreased as a result of a 20% decrease in employee headcount from June 30, 2022 to June 30, 2023 in our marketing and sales functions.</td></tr>
<tr><td>General & Admin</td><td>+39%</td><td>The increases were primarily due to accrued legal expenses relating to the fine imposed by the Irish Data Protection Commission in the ongoing data transfers matter and the adoption of new fining guidelines by the European Data Protection Board. In the three months ended June 30, 2023, the increase was partially offset by a decrease in payroll and related expenses as a result of an 11% decrease in employee headcount from June 30, 2022 to June 30, 2023 in our general and administrative functions.</td></tr>
<tr><td>Taxes</td><td>+0.4%</td><td>
Our effective tax rate decreased in the three months ended June 30, 2023 compared to the same period in 2022, mostly due to excess tax benefits recognized from share-based compensation and a U.S. tax benefit resulting from a change in foreign tax law, partially offset by a legal accrual that is not expected to be tax-deductible.
</td></tr>
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SEGMENT PROFITABILITY

Segment profitability

The following table sets forth income (loss) from operations by segment:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	% change	2023	2022	% change
	(in millions, except percentages)					
Family of Apps	$ 13,131	$ 11,164	18 %	$ 24,351	$ 22,647	8 %
Reality Labs	(3,739)	(2,806)	(33)%	(7,732)	(5,766)	(34)%
Total income from operations	$ 9,392	$ 8,358	12 %	$ 16,619	$ 16,881	(2)%

- FAMILY OF APPS:
  - The increases were mainly driven by higher advertising revenue, partially offset by increases in legal-related costs and restructuring charges related to severance and other personnel costs and facilities consolidation.

- REALITY LABS:
  - The increases were primarily due to decreases in RL revenue, increases in payroll and related expenses, and restructuring charges related to facilities consolidation and severance and other personnel costs. In the three months ended June 30, 2023, the increase in RL loss was also attributed to a prior year reduction in loss reserves on purchase commitments.

LONG-TERM DEBT:

- As of June 30, 2023, we had outstanding long-term debt in the form of senior unsecured notes for an aggregate principal amount of $18.50 billion. These notes were issued in multiple series, which mature from 2027 through 2063. Short-term and long-term future interest payments obligations as of June 30, 2023 are $863 million and $16.82 billion, respectively. Net proceeds from the offerings are used for general corporate purposes, which may include, but are not limited to, capital expenditures, repurchases of outstanding shares of our common stock, acquisitions, or investments.