

OPENING REMARKS

- Biggest announcements:

- ↳ Quest 3 + Ray Ban AR glasses announced in Connect.
- ↳ Meta AI
- ↳ AI Studio Platform
- ↳ EMU - Image creation model
- ↳ Business AI + Creator AI

Theme for 2024 will be around all these new launches

* Will take time to implement these changes & will be focus.

- Continue to operate efficiently going forward. *Creates more disciplined and lean culture + provides stability in long-term initiatives through very volatile world.*
- AI will be biggest priority.
↳ Does not want to increment HQ so will take them from other areas.
- Have highering backlog.

Part of layoffs included teams swapping out certain skillsets for being able to hire others - are going to be hiring those roles in 2024 = Headcount costs will increase for next year = impact on margins.

- Reel +40% time increase in IG. Now net neutral before they expected.
↳ Will continue to focus but overall as video.

In 1Q still specifies Reels as a factor which negatively impacted advertising revenue - the impact of Reels being net neutral has not yet been reflected in the results. Higher growth for future as it becomes a tailwind?

- AI is driving a lot of the performance.
- Believes that Llama 2 has become most used.
- AI feed recommendation has driven increase in engagement.
~~+6% in FB + +7% in IG~~ 7% FB & 6% IG

AI tools for advertisers driving results with Advantage+ Shopping Campaigns reaching a \$10B run rate + more than half of advertisers using Advantage+ Creative tools to optimize images and text in their ads creative

- Business Messaging to be next pillar of business.
↳ In India has been successful so far.

*Every week now +60% of people on WhatsApp in India message a business app account.
Revenue from Click-to-Message ads in India has doubled YoY.*

- ↳ Mortly has been deployed in countries where labor is less expensive but want to focus on business AI to fix it. *AIs to become customer support - making AIs work for more businesses is going to be an important focus for them for 2024.*

- Threads: happy with results so far.
Are at the point where they're going to focus on growing the community further.

- Metaverse.
↳ Quest 3 brings many leaps in performance. *Positive initial reviews*
↳ Glasses are ideal form factor for AI. Early reviews have been positive.
↳ Advancements also with Horizon & Avatars.

- Leaner organization shipping faster.
- Highest Op. Margin even while investing in the future.

- Q3 no longer includes HC affected by layoffs.
- Capex mainly focused on Datacenters.
- Repurchased stocks.
- Investing on marketers to use AI.
- Continue to monitor regulation / restrictions.

Ad revenue largest contributor was online commerce vertical followed by CPG and gaming.

- *Online commerce and gaming benefited from strong spend among advertisers in China reaching customer in other regions.*

Ad revenue growth strongest in Rest of the World and Europe, followed by APAC and North America.

Foreign currency was a tailwind in all international regions.

Other FoA +53% driven by strong business messaging revenue growth from WhatsApp Business Platform.

- *I would expect this to continue to grow at an even more rapid pace with the inclusion of AI agents for businesses.*

OUTLOOK

- lower expenses expected
- Expect RL losses to increase
- Expect higher infrastructure costs of 2024 in depreciation expenses.
 - ↳ Higher operating cost + higher workforce costs.
 - ↳ operating loss of RL to further increase YoY
- Capex investment in servers + new Datacenter architecture.

Will have much higher headcount by end of 2024 than what they have now as they resume hiring after freeze. Hiring will be focused on AI (mainly), RL, monetization + regulatory and compliance needs.

QUESTIONS

① Open source model strategy? RL-expenditures going on that could be ported to FoA?

- Open Source to increase adoption + innovation faster + security + safety + reduce costs.
 - ↳ Helps with recruiting → build standard for the industry.
 - ↳ Internal models are built on top.
- Majority of RL costs are direct costs.
 - ↳ Expect to interact with FoA like Avatar
 - ↳ Hardware create unique content for FoA
 - ↳ long-term fee benefit of having platform where FoA runs.
 - ↳ Current losses are driven by RL directly.

CAPEX are big drivers of costs, so any aid in innovating on efficiency is helpful

Over the years, can expect shared benefits with FoA (long-term)

② Regional performance of ad. revenue? Datacenter architecture - multi year view for Capex?

- Regions:
 - ↳ NA strong demand for China advertisers.
 - ↳ EU broad base. Some China demand.
 - ↳ APAC
 - ↳ Rest of World: stronger pricing. Brazil → demand of China advertisers.
 - ↳ All also benefitted by fx tailwinds.
- Datacenter: are early. Expect will allow to plan better in future.

③ Ad creative (better ads by A)? Geopolitical impact?

- Gen AI has been testing & have included in Advantage+
 - ↳ Text variation to highlight attributes.
 - ↳ Repurposing for different formats.
 - ↳ Background generation.
- Advertiser feedback has been positive.
- Geopolitical impact: monitor to keep people safe.
 - ↳ Continue to see higher demand but are seeing volatility
 - ↳ Foster ad spend at the beginning of the quarter which corresponds start of conflict in Israel
 - ⇒ Expanded their range due to this.

④ Gen AI Chat Bots + assistant → improve engagement & monetization overtime?

Outlook for 2024:

- Gen AI:
 - ↳ Most businesses & creators will want one.
 - ↳ Engagement will be one of the way people use messaging.
 - ⇒ AIs will be able to produce content.
 - ↳ Engagement creates more opportunity for monetization.
 - ↳ Business messaging also monetization.
- Outlook: volatile Q4 will have impact on 2024 as well.
 - ↳ Increased value for advertisers → better return on ads.
 - ↳ Will be a lapping stronger period in 2024.
 - ↳ Revenue outlook is uncertain.
 - ↳ Details increase in costs already mentioned in opening remarks.

Expect engagement to be incremental from use of AI.

Continue focused on delivering overall operating income growth in order to fund RL plans

⑤ DSA, DMA. Subscription in FB, specifically EU? Chinese ad. affecting growth.

- Have moved to a consent model. Don't have anything new to share.
- Meta verified: positive feedback. Testing with businesses & will implement on WA.
 - ↳ Early. Not a lot to share.
- Even excluding Chinese advertisers, it has grown.
 - ↳ longer term trend with overall growth.
 - ↳ Be cognizant of future volatility.

⑩ Quest 3. Growth 2024.

- Not sharing expectation with Quest 3 but excited to have it in holiday period.
 - ↳ Early. No specific.
- Political spend in 2024. Saw growth in all verticals except that one. **Currently lapping lead-up to 2022 US midterms.**
 - ↳ Small vertical.

③ AI agent / studio strategy vs other things like Stories + Reels.

- Hard to predict how big it's going to be.
- Different than ChatGPT which could be best comparison.
- Fundamental tech in Gen AI will transform how ppl interact with platform.
 - ↳ Even through creation & tools provided to advertisers.
 - ↳ Very broad technology.
- Efficiency & cost: most important to find product market fit.
 - ↳ Near term will be to deliver product to more people
 - ↳ Still in early part of the curve.

Thinks that for Feed apps, over time more of the content that people consume is going to be either generated or edited by AI.

Going to change advertising in a big way. Going to make it so much easier to run ads. Test more versions of creative + paired with recommendation AI.

FOLLOW-UP CALL - General Comments

- Reels: net neutrality reached driven by improved monetization efficiencies through the ongoing work to make Reels ads more interactive and relevant, as well as continued incremental time spent gains.
- Click-to-message (CTM) ads: YoY revenue growth was faster than overall ad revenue growth in Q3. Click-to-WhatsApp annualized revenue is already in the billions of dollars.
- Hope is that AI creative tools will make it easier for everyone to create more engaging and compelling content and that'll increase the volume of content from both creators and friends and family that can be surfaced by ranking engine.
- FTC proceeding: administrative proceeding to rewrite the privacy order in the spring and has proposed among other things, imposing significant limitations to their business, including ability to launch products and modify existing ones. Expect ruling in coming weeks and response to FTC due in November.
- Ability to procure capacity they need influences their CapEx spend - are expecting some supply constraints with GPUs next year, particularly in the first half.
 - Are mitigating this by ramping up adoption of own customer silicon chips, particularly for the ads recommendations work.
 - Expected supply constraints as best as they can foresee are factored into their outlook.
- On Gen AI messaging: don't know yet what longer-term sort of cost profile is going to look like in part because they are a lot earlier in the cost efficiency curve for their GPU utilization than for CPUs.
 - Expect to follow similar trajectory as they saw with ranking and recommendations work and to have the opportunity to deliver more cost efficiencies there. More focused right now on developing and supporting some of the new compelling consumer and business-facing capabilities.
- Have stood up significant training capacity for Gen AI this year. Next year, a lot of the investment will be across both training and inference needs (inference side is a bit harder to predict). They believe they can meet their capacity needs with their planned investments but they will learn over time. Also have flexibility since they're using systems that can support both training and inference.