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- Community continues to grow.
- Product trends look better from what some commentary suggests.
- Speculation about engagement
 - ↳ # of ppl using services everyday is the highest it's ever been.
 - ⇒ IG +2B MAU | WA +2B DAU
 - ⇒ WhatsApp growing in North America
 - ↳ Overall, all apps continue to grow from a large base.
- Engagement growth, especially through Reels.
- Grew on a constant currency basis → since not clear economy will stabilize, are being conservative.

FOCUS FOR 2023

- Most teams will stay flat or shrink → overall company will remain same size / slightly smaller.
- 3 primary areas of focus:
 - ↳ AI discovery engine that's powering Reels + other recommendations
 - ↳ Ads + Business Messaging platforms
 - ↳ Future vision for the metaverse.
- GOAL: Grow F&A operating income so that it can sustain investments in AI infrastructure + Reality Labs.
 - ↳ still meaningfully grow overall company operating income in the long-term.
- Surge in CapEx due to building AI infrastructure → will go down long-term.
- RL expenses expected to increase meaningfully in 2023
 - ↳ Launch of Quest headset + 2022 hiring (done in 2022 but first full year impact will be seen in 2023).
- Expect to pace RL investment to ensure they can achieve goal of growing Op Income.
- AI discovery engine is playing increasingly important role across products.
- Reels continue to grow quickly → both in production + consumption.
 - ↳ 50% increase in vte.
 - ↳ **Reels is incremental time spent.**
 - ⇒ Believe they are gaining time spent share on competitors like TikTok.
- What sets FB products apart:
 - ① Discovery engine recommends all types of content.
 - ② They can mix content alongside posts from friends + family.
 - ③ More social interaction move to messaging.
 - ↳ Flywheel between discovery + messaging → on IGs ppl reshare Reels + 1B times a day through DMs.
- Monetization:
 - ↳ Near term, shift to Reels displaces revenue from higher monetizing surfaces.
 - ⇒ Have made progress but are choosing to take +500M quarterly revenue headwind with this shift
 - ↳ Expect to normalize in 12-18 months
 - ↳ Messaging is major monetization opportunity.
 - ⇒ Click-to-messaging ads continue to be fastest-growing ad products.
 - ⇒ Paid messaging: continues to grow quickly but from a smaller base.
 - ↳ Putting foundations in place to scale
 - * Key partnerships with Salesforce → lets businesses use WA as main messaging service to answer customer questions + update + sell directly in chat.
 - * Launched JioMart on WA in India → first end-to-end shopping experience (shows potential for chat-based commerce through messaging).
- Metaverse:
 - ↳ Announced Quest Pro → started shipping
 - ⇒ New high-end VR headset → blend virtual objects into physical environment around you.
 - ↳ Work in the Metaverse is a big theme for Quest Pro.
 - ⇒ +200M ppl get new PCs every year.
 - ⇒ Enable more ppl to get work done in virtual mixed reality, eventually even better than they could on PCs.
 - ⇒ Partnerships with Microsoft, Adobe, Autodesk, Zoom + Accenture.
 - ↳ Long road ahead, will take few versions of each product before they become mainstream.

DAVID WEHNER

- \$413M impairment of certain operating leases → align office facilities footprint w/operating needs.
- Pace of hiring slowed in Q3. Expect to slow dramatically going forward (remain flat relative to current levels).
- Investments mainly focused in servers, data centers & network infrastructure.
- FoA:
 - ↳ Continues to grow + engagement remains strong.
 - ↳ Apple's ATT changes headwind diminished in Q3 as META laps first full Q post launch of iOS 14.5.
 - ↳ Offset by weak advertising demand → uncertain volatile macroeconomic landscape.
 - ↳ Strongest verticals were health care & travel offset by softness in other verticals including online commerce, gaming, financial services & CPG.
 - ↳ Rev. growth from large advertisers remain challenged → resilience among smaller advertisers.
 - ↳ Foreign currency was a significant headwind in all international regions.
 - ↳ # of ads increased +17% | Price decreased -18%
 - ⇒ Impression growth driven by APAC + Rest of the World.
 - ⇒ Price affected by strong impression growth from lower monetizing surfaces & regions, foreign currency depreciation & lower advertiser demand.
 - ↳ FoA other revenue +9%, driven by growth from WhatsApp business platform.
 - ↳ Continue to direct majority of investments towards development & operation of FoA.

REALITY LABS

- Lower revenue due to lower Quest 2 sales.
- Expenses increased due to employee-related costs & technology development expenses.

OUTLOOK

- Currency headwinds expected to continue.
- Making significant changes to operate more efficiently.
 - ↳ Holding teams flat in terms of HC, shrinking others & investing in HC growth only in highest priorities.
- Some of the steps taken to be more efficient will have negative impact on margin in the short term.
- Expect % growth rate of expenses to decelerate significantly.
- Expect growth in Cost of Rev. to accelerate driven by infrastructure related expenses & RL hardware cost driven by launch of next gen of Quest.
- Anticipate RL operating losses in 2023 to grow significantly YoY.
 - ↳ Beyond 2023, expect to pace investments → grow operating margin.
- Currently going through investment cycle:
 - ① Significantly expanding AI capacity
 - ↳ Driving 2023 CAPEX
 - ↳ Moving more of their infrastructure to AI is capital intensive
 - ⇒ More expensive servers & network equipment.
 - ⇒ META is building new datacenters specifically equipped to support next-generation AI Hardware.
 - * Expect these investments to provide technology advantage & unlock meaningful improvements across key initiative, including Feed, Reels & Ads.
 - ② Making ongoing investments to Data center Footprint
 - ↳ Have stepped up investment in bringing more datacenter capacity online.
 - ⇒ Will provide greater flexibility with the types of servers they purchase & allow them to use them longer → more cost efficient.
- Continue to monitor developments regarding viability of transatlantic data transfers & their potential impact on European operations.
- Fundamentals are there for a return to stronger top line growth.
- Approaching 2023 with a focus on efficiency & spending discipline.

QUESTIONS

- ① What will those AI investments enable you to do differently + time to see incremental engagement / revenue?
Trends for time spent in the US?

- Reels is incremental time spent.
- Time spent both in US & globally are up YoY.
 - ↳ Are not optimizing for time spent, but those trends are positive.
- Are focused on evaluating ROI of AI investments → this will impact future investments.
 - ↳ So far have seen strong impact on recommendation products from advancing developments on AI growth.
 - ↳ Shared in Q2 that a single AI advancement in recommendations model had led to +15% watch time gain in Reels.
 - * gain has continued to grow. Expect additional improvements.

- ② Drivers for revenue 2023? How much macro driven?

- Continue to make good progress in click-to-message ads → especially important in some developing markets.
- Macro climate will continue to have an impact.
- * Next year's guide includes an estimated \$2B one-time charges related to office facilities consolidation.

- ③ Reels transition, how does it compare to News Feed as far as repeat rates or retention?

- Reels is contributing to overall engagement.
- Working on closing the monetization gap.
 - * Any time they've had a new format they have this dynamic where they focus on increasing engagement & growing demand for the product.
 - ↳ While this is happening, monetization efficiency for the new format lagged behind.
- * AI can be used to effectively understand content & individual interest.
 - ↳ Opens the possibility of access to a much bigger corpus of content to put in feed & increase engagement.
 - ⇒ Expect to continue driving incremental engagement from investments in AI.
- Have a unique mix of having social friends & family content & ability to drive recommendations.

④ Improvements around Apple's ATT?

Efforts to attract content creators to Reels? Does revenue sharing impact cost structure?

- Primary factor concerning ATT is the tapping factor vs. OR
 - ↳ It was fully rolled out by Q3 2021.
- Efforts to attract content creators are not going to meaningfully impact cost structure.
 - ↳ This is factored in expense guidance.

How much of

⑤ Investments around future-proofing the platform?

Metaverse - revenue opportunity over the next 3-5 years?

- Future-proofing is a factor but not the primary thing driving them.
- Having a funnel that's more integrated where they do more commerce is a big part of what they hope to achieve with business messaging.
 - ↳ The integration will be valuable in terms of making sure the value they are creating for business & consumers can be more efficiently measured & attributed to their services.
- By controlling the platform you can build new & innovative things when you control more of the stack yourself.
- Enabling more experiences is the primary driver & the fortification against external risks is a strategic advantage over the long term.
- With Metaverse, believe that it's not clear that if FB weren't driving this tech forward that anyone else would be.

⑥ Metaverse: how would you rate the company's performance to date in terms of rollout?

Is the opportunity evolving in line with your expectations?

- Wide portfolio of things they are working on.
- **4 major platforms META is focusing on developing.**

① Social Metaverse Platform

- ↳ Early version is Horizon with avatar system.
 - ↳ Evolving quickly but still long ways to go.

② VR

- ↳ Will have a consumer-focused product that will probably reach a very large scale but also a work-focused product with better computing power.
- ↳ Other two are currently mostly internal.

③ AR

- ↳ No indication anyone else is doing leading work in those areas even though they still haven't launched AR glasses.

④ Neural Interfaces.

- ↳ Input is an important part - how you basically control the computing platform.
- ↳ Ppl will want a discrete way to communicate with the device → critical

* Are making good progress on all of these areas.

* Pacing investments due to macroeconomic environment.

* Some ppl might disagree but from what MZ can tell, it will be very important

- ↳ It would be a mistake to not focus on these areas that are fundamentally important for the future.

* Have built up the team to a point where MZ thinks they'll be able to match that growth with the rest of the business moving forward.

* MZ thinks this is historic work that will be looked back & talked of decades from now.