Earning Call Q4 2023

Thursday, February 1, 2024 4:40 PM

Mark Zuckerberg

- Wrapped up important year for company – Year of Efficiency.
- Achieved efficiency goals + many more releases.
  - ↳ will carry efficiency forward.
- Major goal around AI → for business, people, creators, developers.
  - ↳ Also connects to devices (Glasses)

Building the most popular and most advanced AI products and services, basically an assistant/ AI product for every need for al stakeholders + open-source model for developers.

Also think everyone will want a new category of computing devices that let you frictionlessly interact with AIs that will see what you see and hear what you hear (glasses).

- See need of General Intelligence ⇒ theme of product work
- Building capacity for AI → announcement of H100.

Lesson learned from Reels: initially underbuilt GPU capacity - decided to build enough capacity for Reels and another Reels-sized AI service that they expect to emerge so that they wouldn't be in that situation again.

- Expect to continue investing significantly.
- Open Source General Infrastructure.
  - ↳ Believe in this model.
  - ↳ Strategic benefits:
    - ⇒ Safer + more secure
    - ⇒ More compute efficient
    - ⇒ Industry standard → easier to integrate innovations.
    - ⇒ Popular with developers & researchers → helps with recruiting.
    - ⇒ Focuses work to build leader.

★ Next part of playbook is taking long-term approach towards development.
↳ Working on Llama 5, 6, 7 + beyond to develop full general intelligence.

- Learning from data + feedback loops.
  - ↳ Have improved quickly b/c of feedback loop. → More important than training.
- Not shy about experimentation. Part of the culture → "rapid learning & experimentation across our apps"
  - ↳ Learn until they perform like they want & then release to all users.
- ⇒ Expect to roll out AI in the coming months. Have been in testing / tuning phase.
  - ↳ Later focus on monetization. when widely adopted.
- Metaverse: RL crossed a million dollar in revenue. in Q4 for the first time.
  - ↳ Quest is most used & most downloaded. ★ In-house developed game received masterpiece rating, not just in VR but every platform.
  - ↳ Horizon also growing → focus on growing mobile version as well as VR.
  - ↳ Rolling new AI features → Smart Glasses. including multimodal AI. Connection of metaverse + AI vision.
    - ★ Glasses doing better than expected both in sales & engagement.
      - ↳ Partner EssilorLuxottica planning on making more than expected due to high demand + engagement & retention significantly higher than 1st version of glasses.
- Continue to improve ads (Reels + recommendations) + Messaging
  - ↳ Reels continue to drive
  - ↳ WhatsApp also doing well + growing in US. ★ Messaging as new revenue pillar.

Next step is to unify recommendation system across Reels & other type of video.

Susan Lee

- FoA: transitioning away from reporting FB specific users.
  - ↳ Online commerce & Gaming verticals → advertisers from China (+10% of rev.)
    - ↳ Largest contributor.
  - ↳ Strongest in Europe & Rest of World.
  - ↳ Foreign currency was a tailwind.
  - ↳ Impression growth + ad price growth.
  - ↳ Business revenue from messaging in WhatsApp. +84% in Q4
  - ↳ 77% of expenses were for FoA. → expenses were down 13% due to lower restructuring expenses.

RL:
↳ $1.1B due to Quest sales. (+47%) Expenses +14%

Outlook

- Strong momentum with engagement.
- Daily watch-time increased. +25% driven by ongoing ranking improvements.
- Recommendations drove incremental growth.
  - ↳ will continue to improve in 2024.
- Good traction with WhatsApp. Channel products → +500M MAUs
- Threads → strong product momentum.
- Gen AI fully rolled out in US.
- Focus 2024
  - ↳ Llama 3 → Launch
  - ↳ AI expanding usefulness of Meta AI assistant + progressing AI studio roadmap
- Will continue with same growth approach
- Increase monetization efficiency
  - ↳ Increase ad inventory ⇒ more dynamic approach with organic engagement.
  - ↳ Improving mktg performance.
    - ⇒ Use AI
    - ⇒ Advantage + solutions for advertisers.
      - ↳ Automation
    - ⇒ Conversion API → better measurement of results.

★ New tools for advertisers has had strong adoption + showing promising early performance gains.
↳ Remain focus for 2024.

- Click-to-Message ads continue to grow
- Paid messaging continues to grow → focus on broadening adoption.
- Testing AI for businesses in WA & Messengers.
- Shops ad products. → crossed $2B revenue run-rate.

• Will hire to support AI growth + will invest in computing power heavily.
• Reality labs also strong investments.

• Maintain share repurchase.
• Regular dividend.
• Contine to monitor regulatory landscape.

Rev outlook Q1 $34.5-37 B
Expenses $94-99B Full year

• Expect higher infrastructure costs.
• Higher operating costs.
• Will add incremental talent to achieve goals. → can assume will increase R&D
• Expect RL losses to increase meaningfully YoY.
• CapEx: investments in servers + data center
  ↳ Anticipate for future needs. + expect to go beyond this year.

* Want to shift workforce composition towards higher-cost technical roles.

Questions

① Color in feedback loop. Advertising business AI tools. Improvements? Where do you get feedback?
• 3 areas of focus: creating engaging ~~AI~~ on-platform ad experiences (Click-to-Message, Shop-Ads, Lead generations)
  ↳ Making it easier for advertisers to connect data, continue to use AI in platforms. More relevant ads + better tools. Automate ad creations.
⇒ Will continue going forward. → continue using AI (more accurate predictions → more relevant ads)
• Q1 Rev. guide. reflects what they saw in Q4

② Keep messages from learning of Year of Efficiency?
CapEx.
• Themes were to make stronger tech company + improve financial performance to provide stability to invest in the future. was never meant to be a short term approach.
• Making company leaner going forward.
  ↳ they operate better as a leaner company.
• Have big recruiting lag. Aligned to layoffs.
  ↳ Will keep minimal → best culturally.
• Gives ability to invest in the future that is unknown. + unknown geopolitical landscape.
  ↳ Gives them flexibility to do this * Keep stockholders happy
• Increase in CapEx → supply & demand factures
  ↳ Dynamic planning, lots of unknowns.
  ↳ Will need to invest more to support AI.

③ Timeline for Metaverse. Shop ads. Learnings + what's different.
• AI will make products & services better.
• Smart Glasses → with AI assistants will be killer app
• AI & Metaverse go hand in hand.
• Unknown how it will play out.

• Online Commerce is a strong vertical. A lot of what they do is already focused
• Contine to invest here.
• Shop Ads: make improvements to make it easier.
  ↳ working on deepening integration.
  ↳ Partnering with Amazon → testing
  ↳ Testing how to make shopping easier.

④ Messaging. Comps getting tougher.
• Click-to-Messaging + Paid Messaging → Much earlier.
  ↳ More advertiser adoption
  ↳ Trying to drive down funnel performance.
  ↳ Introducing more robust reporting.
  ↳ Opportunities for increased automation

Focused on making easier to buy
Investing in making it easier to get more within the apps.
  ↳ Example of buying flights Flows

• Don't provide guidance for more than Q1

⑤ Reality labs. Move FAIR. Dividend. Why now?
• Moved FAIR to be closer to AI groups. * Both are research groups. Gen AI closer
• Aligned to what they think will happen in future LLaMA models.

FAIR long-term vision } By being put together can align more towards same vision even if they are in different time horizons concerning research.

• Dividend to accompany share repurchases.
  ↳ Expect to continue being main return.

⑥ Impact of Apple opening app store in Meta. Gen AI Monetization.
• Will have to impact. Will be impressed if any developer uses it.

• Don't expect to be meaningful in 2024
• Most meaningful now is ad tools → leads to more advertiser adoption.
• Compelling opportunity with messaging. Are testing but long-term.
• Assitant has added utility.
• Are in period of adjusting.

⑦ Meta AI → engagement increase? Increased commercial activity?
• Having a good assitant expect to add value.
• At the phase where they are not pushing proactively
• Learning how ppl interact with it.
• Expect to roll out more this year. → Big theme for 2024.
• Are in learning & tuning phase