

Meta Platforms Inc. (META) Q2 2022 Earnings Call Transcript

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Meta Platforms Inc. (META 1.59%)

Q2 2022 Earnings Call

Jul 27, 2022, 5:00 p.m. ET

Contents:

- Prepared Remarks
- Questions and Answers
- Call Participants

Prepared Remarks:

Operator

Good afternoon. My name is France, and I will be your conference operator today. At this time, I would like to welcome everyone to the Meta's second-quarter earnings conference call. [Operator instructions] This call will be recorded.

Thank you very much. Ms. Deborah Crawford, Meta's vice president of investor relations. You may begin.

Deborah Crawford -- *Vice President, Investor Relations*

Thank you. Good afternoon, and welcome to Meta Platform's second-quarter 2022 earnings conference call. Joining me today to discuss our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and Dave Wehner, CFO. 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 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 may present both GAAP and non-GAAP financial measures.

10 stocks we like better than Meta Platforms

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They just revealed what they believe are the **ten best stocks** for investors to buy right now... and Meta Platforms wasn't one of them! That's right -- they think these 10 stocks are even better buys.

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- *Stock Advisor returns as of August 12, 2024*

A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and an accompanying investor presentation are available on our website at investor.fb.com. And now I'd like to turn the call over to Mark.

Mark Zuckerberg -- *Chief Executive Officer*

All right. Hey, everyone. Thanks for joining today. Our family of apps continues to grow even as we navigate a challenging macro environment.

We now reach more than 3.6 billion people monthly across our services. The number of people using Facebook daily continues to grow, including in the U.S., although we saw an expected decline in monthly actives due to Internet blocks related to the war in Ukraine. Engagement trends on Facebook have generally been stronger than we anticipated, and strong real growth is continuing to drive engagement across Facebook and Instagram. That said, we seem to have entered an economic downturn that will have a broad impact on the digital advertising business.

And it's always hard to predict how deep or how long these cycles will be, but I'd say that the situation seems worse than it did a quarter ago. In this environment, we're focused on making the long-term investments that will position us to be stronger coming out of this downturn, including our work on our discovery engine

and Reels, our new ads infrastructure and the metaverse. And we're also focused on being rigorous about measuring returns and sizing these investments correctly. Now on our last call, I discussed that based on the revenue growth we were seeing in 2021, we kicked off a number of multiyear projects to accelerate our business.

And I still believe that these projects are important. But given the more recent revenue trajectory that we're seeing, we are slowing the pace of these investments and pushing some expenses that would have come in the next year or two off to a somewhat longer time line. And given the continued trends, this is even more of a focus now than it was last quarter. Our plan is to steadily reduce headcount growth over the next year.

Many teams are going to shrink so we can shift energy to other areas inside the company. And I want to give our leaders the ability to decide within their teams where to double down, where to backfill attrition and where to restructure teams while minimizing thrash to the long-term initiatives. The fact that we hired a lot of people earlier this year means that our reported year-over-year headcount growth will still be substantial for the next few quarters, but it should continue to decline over time. Now this is a period that demands more intensity, and I expect us to get more done with fewer resources.

We're currently going through the process of increasing the goals for many of our efforts. Previously challenging periods have been transformational for our company and helped us develop our next generation of leaders. And I expect this period to be no different. I expect that we're going to find a way to keep investing in our top priority areas.

And I think we're going to come through this period as a stronger and more disciplined organization. Now next, I want to discuss how we're doing in our high-priority areas. To understand where we're going, it's important to keep in mind that there are two major technological waves that we're riding in our business. The first wave of driving our business today is AI, and then the second longer-term wave is the emergence of the metaverse.

One of the main transformations in our business right now is that social feeds are going from being driven primarily by the people and accounts you follow to increasingly also being driven by AI recommending content that you'll find interesting from across Facebook or Instagram, even if you don't follow those

creators. Social content from people you know is going to remain an important part of the experience and some of our most differentiated content. But increasingly, we'll also be able to supplement that with other interesting content from across our networks. Reels is one part of this trend that focuses on the growth of short-form video as a content format.

But this overall AI trend is much broader and covers all types of content, including text, images, links, group content and more. And building a recommendation system across all these types of content is something that we're uniquely focused on. Right now, about 15% of content in a person's Facebook feed and a little more than that of their Instagram feed is recommended by our AI, from people, groups, or accounts that you don't follow. And we expect these numbers to more than double by the end of next year.

As our AI finds additional content that people will find interesting, that increases engagement and the quality of our feeds. And since we're already efficient in monetizing most of these formats, this should increase our business opportunity over that period as well. Reels engagement is also growing quickly. I shared last quarter that Reels already made up 20% of the time that people spend on Instagram.

This quarter, we saw a more than 30% increase in the time that people spent engaging with Reels across Facebook and Instagram. AI advances are driving a lot of these improvements. And one example is that after launching a new large AI model for recommendations, we saw a 15% increase in watch time in the Reels video player on Facebook alone. So I think that there are many improvements like this that we're going to be able to continue to make.

As we are building out our discovery engine though, I want to be clear that we are still ultimately a social company focused on helping people connect. One social trend that we're seeing is that instead of people just interacting in comments in their feeds, most people find interesting content in their feeds then they message -- and then they message that content to friends and interact here. And this creates this flywheel of discovery and then social connection and then inspiring those people to create more content themselves. In Instagram, for example, we see that Reels makes up more than half of content reshared into messages.

So our strategy isn't about public versus social content and interaction. It's really about enabling a flywheel that compounds both. All right. Next on to Ads.

We faced a number of challenges here in the near term, but the investments that we're making should give us a comparative advantage over the longer term. One near-term challenge is the growth of short-form video. Reels doesn't yet monetize at the same rate as Feed or Stories. So in the near term, the faster that Reels grows, the more revenue that actually displaces from higher monetizing surfaces.

Now in theory, we could mitigate the short-term headwind by pushing less hard on growing Reels, but that would be worse for our products and business longer term since we're confident that Reels will grow engagement overall and quality and will eventually monetize closer to Feed. Our work on ads monetization efficiency for Reels is actually making faster progress than we'd expected. We've now crossed a \$1 billion annual revenue run rate for Reels ads, and Reels also has a higher revenue run rate than Stories did at identical times post-launch. So the bottom line is I think we're on track here and we just need to push through this one.

The second challenge that we face here is the signal loss from Apple's iOS changes. And as I've discussed before, our approach here is to grow first-party understanding of people's interests by making it easier for people to engage with businesses in our own apps, whether that's through business messaging, shops or new ad products. For example, click to messaging as part of our business messaging strategy that's grown quickly with 40% of our advertisers already using this format. The AI wave that we are riding is a tailwind for all of these solutions.

Advances in AI enable us to deliver better-personalized ads while using less data. So it powers automated messaging and creation tools to let businesses run better-performing campaigns, which is particularly important for small businesses that don't have big marketing departments and that have been hit hard by Apple's policy changes. Now overall, there's a lot of work to do here and a lot of the investment is in AI compute capex. But I'm confident that if we invest in building the new infrastructure that we need, then we're going to come out of this downturn with even more superior ad products and a meaningful technology advantage over other industry players.

Now of course, the third challenge that we're facing here is the macro economy. And we can't control the timing of when things will bounce back, but I'll note that periods like this are when marketers reevaluate their budgets and are even more focused on finding the highest-performing advertising. And in the last recession,

we invested in our ads business through the downturn and came out stronger on the other side, and I'm focused on making sure that we do the same today. Now if AI is the major technological wave that we're riding today, then the last priority that I want to discuss is about the Metaverse technological wave that is currently building.

And the Metaverse is a massive opportunity for a number of reasons. Most importantly, it enables deeper social experiences, where you feel a realistic sense of presence with other people, no matter where they are. Whether you're playing games or working for hours at a time or if you're just jumping in for just a minute at a time to say hi to a friend or collaborate on a project quickly. By helping to develop these platforms, we're going to have the freedom to build these experiences the way that we and the overall industry believe will be best rather than being limited by the constraints that competitors place on us and on our community and on small businesses.

And given some of the product and business constraints that we face now, I feel even more strongly now that developing these platforms will unlock hundreds of billions of dollars, if not trillions over time. This is obviously a very expensive undertaking over the next several years. But as the metaverse becomes more important in every part of how we live from our social platforms and entertainment to work and education and commerce, I'm confident that we're going to be glad that we played an important role in building this. The next milestones to look out for here are the continued expansion of Horizon, our social metaverse platform, and the continued improvement of our Avatars platform, how you express yourself and interact in the metaverse as well as the commerce around that.

These are some of the areas that we're most focused on. And we're going to be launching a web version of Horizon that will be accessible on all platforms later this year, which should dramatically increase the number of people who can use Horizon. And we also just launched our Avatars store with digital clothes from leading fashion houses. And we're going to continue expanding that selection and the fidelity of our Avatar system overall.

On the hardware front, later this year, we'll release Project Cambria, and the experience here is getting pretty awesome. It will be a high-end device focused on professional users and work with high-resolution color mixed reality. I'm really

looking forward to getting this one out. This is just one milestone in the long-term path, but I think people are going to be pretty blown away by this.

All right. So those are the areas that I'm most focused on right now and that I think are going to have the greatest impact on our products and business over the next few years and much longer. Periods like this can be tough, but I really think that the additional focus and discipline are going to make us stronger over time. Now in addition to our business, this is also a period of transition for our leadership team.

And before I hand it over to Sheryl for what will be her last earnings call, I want to thank her for everything that she has done for Meta, for our community, and for so many small businesses around the world. It's really hard to overstate how big of an impact that Sheryl has had on so many different parts of what we do and on me personally. At the same time, Marne and Mark are our talented leaders who I've worked with closely for many years. They're the type of people who I've kept giving more and more responsibility to and they just keep crushing it, so the expanded roles are well deserved.

And I think that they're going to do a great job carrying our business forward and expanding it in some exciting new ways. And we also shared the news this afternoon that Dave Wehner will be transitioning into a new role as our chief strategy officer, overseeing our strategy and corporate development teams. Dave has done great work as our CFO, and I'm really looking forward to continuing to work with him in this new role. And as part of this, we're also promoting Susan Li to be Meta's new chief financial officer starting later this year.

Susan is an incredibly talented executive and I think she'll be an excellent CFO. She already runs our financial planning process and plays an important role on our leadership team, and this transition is something that we've been working on for years. All right. With that, I'm going to hand it over to Sheryl.

Sheryl Sandberg -- *Chief Operating Officer*

Thank you, Mark, for those kind words and for being a great leader and friend for the last 14 years. It has been an enormous privilege to work for you to help build this remarkable company. I'd like to focus on Q2 before making some wider observations about the business. Our total revenue in Q2 was \$28.8 billion, a decrease of 1% year over year.

Foreign exchange trends had a significant impact in Q2, in particular, the depreciation of the euro relative to the dollar. On a constant currency basis, we would have seen 3% revenue growth year over year. Similar to last quarter, we saw solid growth in APAC and other parts of the world outside of North America and Europe, where it's been a more challenging environment. These continue to be turbulent times for the global economy.

Many of the macro factors having an impact on our revenue are continuations of things we've seen in previous quarters, such as the continued impact of the war in Ukraine and the normalization of e-commerce after the pandemic peak. But there are also new challenges with rising inflation and uncertainty around a looming recession. We know that recessions put pressure on marketers to make sure their ad budgets are spent in the smartest way possible. We're focused on helping them run efficient marketing campaigns to get the best possible return on investment, including helping them shift their ad strategies on our platform in line with user trends and our own evolving ad solutions.

I want to pick up on some of the themes Mark just touched on that show how we're doing this: Reels monetization, evolving our ad system, and AI and machine learning. First, Reels monetization. We launched ads and Reels last year. It's growing quickly and we see it as an area where there is significant potential for growth in the future.

It's going to take time but we have a playbook from our experience with Stories. Our focus right now with Reels is ramping up ad load, improving performance and making sure the ads are easy for advertisers to create. We're also using AI to better understand the content being published in Reels, so users can connect to the content that is most relevant to them and marketers can also show more relevant ads. A good example of a brand seeing results with Reels ads is Wild Alaskan Company, a sustainable seafood delivery business that is consistently adopting and testing our latest ad tools.

When they tested adding Reels to their campaign, they saw a 36% increase in return on ad spend, a similar uplift in new subscribers and a 26% lower cost per new subscriber. Second, adapting our ad system to do more with less data. In the short and medium term, we're working to improve and evolve our ad solutions. We're helping advertisers improve the performance of their ads by growing on-site data conversions with products like lead ads, which make it easier for

businesses to generate leads and with business messaging products like click-to-message ads, where you click on an ad in your Facebook or Instagram feed and it opens a chat with the business in Messenger, Instagram or WhatsApp.

Business messaging is an area where we see big potential. We estimate that 1 billion users are messaging with a business each week across WhatsApp, Messenger, and Instagram. Click-to-message is already a multibillion-dollar business for us and we continue to see strong double-digit year-over-year growth. These ads are proving particularly popular with SMBs in emerging markets like Brazil and Mexico, many of whom are new advertisers to Meta who come to us to advertise solely in this format.

We're making it easier to create these ads directly from the WhatsApp Business app, which will help small businesses looking to find customers and grow. And big brands are incorporating business messaging into their campaigns like Paramount Studios, who used Click to Messenger to promote their blockbuster movie Top Gun Maverick and drive ticket sales. As more brands turn to messaging, paid messaging provides new ways to sell, support and market right on the chat thread. We're also investing in privacy-safe ways to improve targeting and measurement.

For example, we're continuing to invest improving our conversions API, which creates a direct, reliable and privacy-safe connection between advertiser's marketing data and Meta. And over the longer term, we're developing privacy-enhancing technologies to help minimize the personal information we process while still allowing us to show relevant ads and measure performance. One example is Private Lift, which we're currently beta testing with a number of large advertisers. This is a measurement solution which helps advertisers understand how their campaigns are performing while adding extra layers of privacy to limit the information that can be learned by the advertiser or Meta.

While we develop these solutions, we're also collaborating across our industry on technologies and other standards that will support privacy-safe personalized advertising over the long term. Third, on AI and machine learning. I want to emphasize Mark's point that this is a really important part of how we improve our ads ranking and measurement capabilities. AI-driven products like advantage detailed targeting and advantaged look-alikes help to increase the audience for an ad campaign if it's likely to improve performance.

AI is also an important part of how we continue to grow video monetization. A moment ago, I touched on how we're using it in Reels. We've also launched AI-based tools to make it simpler to create video ads for Instagram Stories, and we're continuing to test ways for advertisers to transform static images with music and motion so they appear more like video. Turning to the business more broadly.

There's no doubt that we're going through a transition period and doing so at a time of global economic uncertainty. But despite the current challenges, I'm very confident for the long term. We're facing a cyclical downturn but over the long run, the digital ad market will continue to grow. Advertisers will go where they get the highest return on investment and ability to drive their business.

We believe we will continue to show up very favorably compared to other advertising options. Meta is a company that has shown extraordinary resilience. We have demonstrated time and time again that we are prepared to move quickly and at scale to respond to changes in consumer behavior, the macroeconomic landscape, and the needs of our advertising partners. And we have demonstrated time and time again that when we build products, they scale globally.

We have made big transitions like the shift from desktop to mobile or from Feed to Stories. We innovate relentlessly and are always laser-focused on execution, delivering tools and products that help advertisers drive business results. The investments we're making in Reels, our discovery engine, business messaging, retooling our ad system, and especially in helping to build the metaverse represent enormous opportunities for our business and our partners. I want to thank the teams that have helped us achieve remarkable success for our business and the millions of other businesses who have grown using our tools and products.

I want to thank our partners, large and small, who we learn from every day. And I want to thank our investor community. Your support has helped us to be the innovative and resilient business that we are. I look forward to continuing to serve on Meta's board, where I'll have a front-row seat to Meta's success in the years ahead.

And now here's my amazing colleague, Dave.

Dave Wehner -- *Chief Financial Officer*

Thanks, Sheryl, and good afternoon, everyone. Let's begin with our consolidated results. All comparisons are on a year-over-year basis, unless otherwise noted.

Q2 total revenue was \$28.8 billion, down 1% or up 3% on a constant currency basis.

Had foreign exchange rates remained constant with Q2 of last year, total revenue would have been approximately \$1.3 billion higher. Q2 total expenses were \$20.5 billion, up 22% compared to last year. In terms of the specific line items, cost of revenue decreased 4% as growth in core infrastructure investments and content-related costs were more than offset by a reduction in Reality Labs loss reserves as a result of the announced price increase of Quest 2. R&D increased 43%, mainly driven by hiring to support Family of Apps and Reality Labs.

Marketing and sales increased 10%, mainly driven by hiring and marketing spend. Lastly, G&A increased 53%, mainly driven by legal-related and employee-related costs. We added over 5,700 net new hires in Q2, the majority in technical functions. We ended the quarter with over 83,500 full-time employees, up 32% compared to last year.

Our second quarter growth rate reflects our hiring progress earlier this year. However, we anticipate headcount growth will slow throughout the rest of the year due to the reduction in our hiring plans. Second-quarter operating income was \$8.4 billion, representing a 29% operating margin. Our tax rate was 18%.

We recorded a loss of \$172 million under interest and other expenses, driven mainly by unrealized losses and equity investments. Net income was \$6.7 billion or \$2.46 per share. Capital expenditures, including principal payments on finance leases, were \$7.7 billion, driven by investments in servers, data centers, and network infrastructure. The big step-up in capex, both year over year and sequentially related to server spend, including for our AI infrastructure.

Sustainability remains a key focus of our infrastructure efforts. And in June, we published our third annual sustainability report. The report demonstrates continued progress on our sustainability initiatives. Free cash flow was \$4.5 billion.

We repurchased \$5.1 billion of our Class A common stock in the second quarter, and we ended the quarter with \$40.5 billion in cash and marketable securities. Moving now to our segment results. I'll begin with the Family of Apps segment. Q2 total Family of Apps revenue was \$28.4 billion, down 1%.

Q2 Family of Apps revenue was \$28.2 billion, down 1% or up 3% on a constant currency basis. Advertising revenue growth slowed throughout the second quarter as advertiser demand softened. The deceleration has been broad-based across verticals, and we believe businesses are lowering their advertising spend in response to the increased economic uncertainty. Foreign currency headwinds also increased throughout the second quarter.

While it wasn't a factor contributing to the deceleration in Q2, we're also continuing to face targeting and measurement headwinds such as Apple's iOS changes, which we believe are contributing to the growth challenges across the digital advertising industry. On a user geography basis, year-over-year ad revenue growth was strongest in Asia Pacific and Rest of World at 13% and 11%, respectively, with both regions benefiting meaningfully from strong growth in click-to-messaging ads. North America and Europe declined 4% and 12%, respectively. Foreign currency was a headwind in all international regions, with Europe and Asia Pacific experiencing the largest impacts.

In Q2, the total number of ad impressions served across our services increased 15% and the average price per ad decreased 14%. Impression growth was driven by Asia Pacific and Rest of World. The year-over-year decline in pricing was driven by a reduction in advertiser demand, the mix shift in ad impressions toward lower monetizing services in regions and foreign currency depreciation. Family of Apps other revenue was \$218 million, up 14%, driven by the WhatsApp business API.

Family of Apps expenses were \$17.2 billion, up 23%, driven mainly by employee-related expenses, legal costs and infrastructure costs. Family of Apps operating income was \$11.2 billion, representing a 39% operating margin. We estimate that approximately 2.9 billion people used at least one of our Family of Apps on a daily basis in June and that approximately 3.6 billion people used at least one on a monthly basis. Facebook daily active users were 1.97 billion, up 3% or 60 million compared to last year.

DAUs represented approximately 67% of the 2.93 billion monthly active users in June. MAUs grew by 39 million or 1% compared to last year. Europe DAUs and MAUs declined sequentially and were negatively impacted by the loss of users in Russia and Ukraine. Within our Reality Labs segment, Q2 revenue was \$452 million, up 48%, driven primarily by Quest 2 sales.

Reality Labs expenses were \$3.3 billion, up 19% due to growth in employee-related costs and R&D operating expenses that were partially offset by the previously mentioned reduction in loss reserves. Reality Labs' operating loss was \$2.8 billion in the second quarter. Turning now to the outlook. We expect third quarter 2022 total revenue to be in the range of \$26 billion to \$28.5 billion.

This outlook reflects a continuation of the weak advertising demand environment we experienced throughout the second quarter, which we believe is being driven by broader macroeconomic uncertainty. We also anticipate third quarter Reality Labs revenue to be lower than second-quarter revenue. Our guidance assumes foreign currency will be an approximately 6% headwind to year-over-year total revenue growth in the third quarter based on current exchange rates. In addition, as noted on previous calls, we continue to monitor developments regarding the viability of transatlantic data transfers and their potential impact on our European operations.

Turning now to the expense outlook. We expect 2022 total expenses to be in the range of \$85 billion to \$88 billion, lowered from our prior outlook of \$87 billion to \$92 billion. We've reduced our hiring and overall expense growth plan this year to account for the more challenging operating environment while continuing to direct resources toward our company priorities. We expect 2022 capital expenditures, including principal payments on finance leases to be in the range of \$30 billion to \$34 billion, narrowed from our prior range of \$29 billion to \$34 billion.

Absent any changes to U.S. tax law, we expect our full year 2022 tax rate to be above the Q2 rate and in the high teens. In closing, we're in the midst of an economic cycle that is having a broad impact on the digital advertising business. We're being disciplined on spending while still investing in those areas that will position to drive growth as the economic environment improves.

Before opening up the call for questions, I want to say how pleased I am that Susan Li will serve as our next CFO when I step into my new role in November. Susan and I have worked side-by-side for the last 10 years, and she is an outstanding leader for the team. With that, France, let's open up the call for questions.

Questions & Answers:

Operator

[Operator instructions] Our first question is from the line of Brian Nowak with Morgan Stanley. Please go ahead with your question.

Brian Nowak -- *Morgan Stanley -- Analyst*

The first one around engagement and overall time spent among the users. Mark, you guys are making a lot of changes around AI and Reels, etc. It's encouraging to hear the stats about 30% increase in time spent with Reels across Facebook and Instagram. As you're studying those users that are using more Reels, are you seeing total time among those users grow? Said another way, are all these changes proving to be incremental? That's the first one.

And the second one on headcount growth. understanding we're expecting a slowing of headcount in the back half, but Mark, to kind of go to your points about at some point, you see headcount decline. Should we think about '23 as being a year in which headcount declines for the company?

Dave Wehner -- *Chief Financial Officer*

Yes. Brian, I can take both of those, and then Mark can add any color if he would like. Reels is additive to time spent. But obviously, it does have a cannibalistic impact as well but the net impact is positive.

There is some engagement that we think is coming out of surfaces like Feed and Stories, and we're getting that engagement on Reels. And that's been part of our explicit strategy to get reels in front of more users. But overall, it is incrementally beneficial to time spent. And then on headcount growth, we're not putting any markers yet out for 2023.

But we're -- as Mark said, we're reducing our headcount growth rates, and we plan to be more focused on maintaining a lot of discipline on headcount growth as we go into 2023. So as we get closer to that and the setting of the budget, we'll be giving more explicit guidance on that brand.

Operator

Our next question is from Justin Post with Bank of America. Please go ahead.

Justin Post -- *Bank of America Merrill Lynch -- Analyst*

Great. Thanks for taking my questions. In the headwinds, you didn't mention TikTok. Are you seeing any dollars or advertisers pull that could be moving over

there for maybe lower CPMs? Any thoughts on competitive headwinds? And then second, just a quick question on guidance.

Is there contemplated pressure on quarter revenue in 3Q versus 2Q because of the Reel usage increases?

Sheryl Sandberg -- *Chief Operating Officer*

I'll take the first question. We exist in a really competitive advertising market where advertisers have broad opportunities to advertise both offline and online and there are almost endless options. So we know we have to earn our share and continue to deliver great ROI and be able to measure results. And that's why we're focused on the continual product improvements that we talk about in these calls quarter over quarter and we'll continue to do going forward.

Dave Wehner -- *Chief Financial Officer*

And, Justin, let me make sure I got that question. I think you were asking about Q3 and just pressure on Q3 because of Reels usage. Mark mentioned that we are really excited that the run rate on Reels crossed \$1 billion, but it is overall because engagement is shifting to Reels. It is an overall headwind on the business.

We haven't specifically quantified that, but there is a headwind on the business as Reels grows. In the long run, we, of course, believe that this will be a tailwind on revenue but that's not happening in 2022. We're optimistic that it can be in the long run. But in general, the pressure that we're seeing on Q3 is overwhelmingly a macro one, where we're seeing sort of broad-based weakness across most of the verticals.

Operator

Our next question is from Eric Sheridan with Goldman Sachs. Please go ahead.

Eric Sheridan -- *Goldman Sachs -- Analyst*

Thanks so much for taking the questions. Two, if I could. One, in terms of honing the focus on investments inside the company and reexamining the cost side. How should we think about the mix between Reality Labs and Family of Apps and what the impact might be on relative margin structure of the two segments as you hone the cost structure of the company and think about that investment cycle in both areas of the business? That would be number one.

And number two, maybe just following up on Justin's question and broadening out a little bit. Is there any way to unpack some of the impact of macro, which is clearly outrunning some of the easier comps you'll be facing in Q3. Because we're lapping IDFA from a year ago, there was an easier comp on top of just IDFA and yet implied is that the rate of growth continues to sort of weaken in Q3 versus Q2. So maybe unpacking a little bit some of the headwinds versus tailwinds in Q3 to Q2 would be helpful.

Dave Wehner -- *Chief Financial Officer*

Yes, Eric, I can take those. And again, if anybody has color, they can add. On the investment focus, I would say broad-based, we're really focusing the investments that the company is making on the key priorities. Now one of those key priorities is clearly the effort that we have behind the Metaverse and Reality Labs.

So it remains an area in which we are going to be increasing investment. But we do plan to have discipline across the entire operating posture of the company. When looking at the Q3 comps, I think you're making an important point. As we headed into the back half of this year, we do get the benefit in our year-over-year growth rates from lapping the Apple iOS rollout, which happened -- was largely complete by Q3 and Q4 of last year.

So we're getting the benefit of more favorable comps on the signals headwind. But that is being offset by the macro environment and the challenges we're seeing there. Now, of course, there are some hard-to-unpack factors. That is at the first order, but of course, we're seeing just generally challenging environment for digital advertising.

And there's several compounding factors. Of course, there's just the overall economic uncertainty that's reflected in the markets. There is the fact that we're lapping periods in which there was still a benefit from COVID in some of the sectors that are important to us, like e-commerce. And then finally, just the signals headwinds and the challenges that advertisers are facing on a second order basis may be affecting some spend.

But at least on the first order, we think it's largely a macro environment that is offsetting the benefit that we would otherwise be getting from lapping the iOS 14 rollout last year.

Operator

Our next question is from Mark Shmulik with Bernstein. Please go ahead.

Mark Shmulik -- *AllianceBernstein -- Analyst*

Yes. Hi. Two questions, if I may. The first remark, back to the discovery engine pivot, certainly a big change for the platform and certainly understand users' hesitancy on kind of any changes.

But beyond the flywheel effect of sharing, any more color you can share on kind of what would differentiate the discovery platform here on Facebook and Instagram versus some other platforms would be much appreciated. And then secondly, on the buyback cadence, is there any right way to think about that? I know the buybacks kind of went down a little bit this quarter. And I've also noticed it kind of seems to trend along with free cash flow generation. Is that the right way to think about the buyback strategy going forward?

Mark Zuckerberg -- *Chief Executive Officer*

You want to take buybacks and then I'll take the product question?

Dave Wehner -- *Chief Financial Officer*

Yes. Do you want to go first? I can do buybacks first. So thanks, Mark. Obviously, we look at a lot of factors when it comes to our buyback program.

We are -- we still have a substantial amount remaining in the buyback program and then we expect to continue to have buybacks as part of our capital allocation strategy going forward. So no real change in posture to announce there. We'll continue to be looking at capital return opportunities over time.

Mark Zuckerberg -- *Chief Executive Officer*

Great. Yes. And on the discovery engine thing, there are a few different pieces of context that I think are important here. One is social content from the people you know is going to continue being very important.

And obviously, following people is an important signal. If you go back 10 years ago, the AI to basically figure out what types of things you were interested in other than having a signal of what you directly follow didn't really exist. It wasn't good enough. So who you followed or who you're friends with was this sort of amazing signal.

And it was more unique in a way, whereas now increasingly, AI is able to identify things that you're interested in that might be from accounts that you're not

following or might even be whole topics that you're not following anyone in that topic. And that just unlocks a bigger corpus of content that you're going to be interested in. So the social parts of what we do will always remain. I think that that will be a very kind of differentiated and important part of what we're doing.

On the discovery engine piece, I do think that we're seeing a different approach than some competitors in that we have a lot of different types of content formats. So I talked about this a little bit upfront in my opening remarks. But the AI that we're building here, it doesn't just apply to videos or it's certainly not just short-form video. It also works with text and links and photos and content and groups and discussions on comments and all of these different things.

And actually, one of the really fascinating AI problems is to produce just like basically a very large model. The AI researchers call it an embedding that's basically trying to unpack basically like meaning or semantics or kind of what a post is about into this very high-dimensional mathematical space. But that can work across all different content types. And being able to do that well, I think we'll end up producing a different experience on Facebook and Instagram compared to some of our other competitors that are just focused on one content format.

And I think in that sense, what we're doing is going to be pretty unique and is going to create a lot of value. I don't think people are going to want to be constrained to just one format. And I certainly think that people are going to always continue caring about what's going on with their friends and family and people they know as well. So this is all going to be kind of a growing thing that makes it so there's more interesting content available.

And basically, it makes the service more -- just better for people to engage with and other things. And then part of the business challenge is just we need to make sure we can monetize Reels well. Like I said in my opening remarks, that's sort of on track but less than the rest of Feed today, but we're optimistic that we'll get it there. So that way, as this ends up increasing the overall engagement on the platform, it will also end up being a tailwind for the business, too.

Operator

Our next question is from Doug Anmuth with J.P. Morgan. Please go ahead.

Douglas Anmuth -- *J.P. Morgan* -- Analyst

Thanks for taking the questions. One for Sheryl and one for Dave. Sheryl, I was hoping if you could just talk about what inning you think you're in, in building out and implementing the ads than to do more with less data for advertising. And do you expect that over time, you'll ever be able to return to the levels of targeting and measurement from before the platform changes? And, Dave, if macro slows down more into perhaps next year and even beyond or your revenue growth flattens even for other reasons, are you prepared on overall expense growth to a similar level to preserve margins and profitability?

Sheryl Sandberg -- *Chief Operating Officer*

I can take the first. So I don't know if I'm the baseball aficionado. I can do -- I can't do an exact inning and I'm kind of hoping inning is baseball. Is that right? Someone nod.

Yes. Yes, it is. It is. There are nine of them.

But I don't know exactly which one we are. But I will say that we're really -- I think we're pretty early on this. I think in many ways, we use data very effectively and in a very privacy-safe way all along to build out very measurable results and very measurable personalized targeting for advertisers. And I think we led there.

And now we're in a new era where we have to do that same form of targeting, that same form of measurement using less data. And I think it's pretty early days in our ability to do that. We're going to do it by investing on our own, investing in AI, investing in machine learning. We're going to do it in rolling out products, like we have recently, that help us and advertisers measure where we're sharing less data between, as I talked about in my remarks.

But we're also going to do it with our industry because it's worth noting that this is not a challenge we face alone. This is a challenge that anyone that's running on the Apple iOS platform has. And the industry is working together, I think, pretty collaboratively in -- not every player, but in a lot of players, many ways to get solutions.

Dave Wehner -- *Chief Financial Officer*

Doug, I just wanted to first kind of hit the premise of the question, which is if we continue to see macroeconomic challenges. It's just historically, macroeconomic challenges are often linked to some sort of cyclical effects. And we do know there's lots of things going on in the broader economy that point in that direction,

including rate hikes and the like. So we do think there is a cyclical component of this.

We know that advertising can be especially subject to these cyclical pressures. We do think that long term, digital within advertising continues to have a very positive future. And we think that we are positioned to continue to grow engagement nicely and build the best products in digital in the market. So we're quite confident that as the market conditions improve, we'll continue to be able to return to nice levels of growth.

But we also, I think, have demonstrated that we're willing to take into account the market environment as we plan our overall expense and capital base. So we'll continue to monitor that as we go into future budget and planning cycles.

Operator

Our next question is from Michael Nathanson with MoffettNathanson. Please go ahead.

Michael Nathanson -- *MoffettNathanson -- Analyst*

Thanks. I have two, maybe one for Sheryl and one for Mark. Sheryl, I'm interested in this juxtaposition position that Reels grew faster than Stories did. You reached \$1 billion.

Yet at the same time, you're saying that it's a harder business to monetize. So what drove -- why do you think the adoption was faster? And then in terms of the sticking points, when you talk to advertisers, what are the things that they need to solve for in order to move money faster to Reels? And, Mark, I think going to one of the earlier questions about your advantages at Facebook. The previous moat, we would argue, was just the social graph of billions of people, families, and friends. Do you think what you're building now with AI or from getting all this content is even -- is a better moat, is a better business than the one you had before, which was a pretty high barrier to entry, just given the social effects of the network you built.

So those are my questions.

Sheryl Sandberg -- *Chief Operating Officer*

So I'll take the Reels one. On Reels, we have a playbook where we, I think, do a very good job building products that consumers love to use, and then building ad

formats which match those products so they can integrate nicely into the consumer experience. So we learned from Stories how to do that, and I think part of the faster adoption of Reels ads is that we are getting better at this. We know we need to make it really easy for advertisers to create that content.

We know we need to create the ad formats. We know we need to give them measurable tools, and we've gotten better at selling the next product, and I think we'll continue to get better at that going forward. But as you do say, there are still some challenges. Video is harder than photos, than static photos.

Small businesses are better at static photos than they are at video. So this is a new format that we have to help them use. I think we have a number of tools that are working. We have a number of tools in development.

But the idea is to help businesses really easily create those Reels ads, really easily test them so they can iterate and keep improving as we do this. So I think it's very promising but we've got some hard work ahead of us.

Mark Zuckerberg -- *Chief Executive Officer*

Yes. And in terms of building sustainable competitive advantages, in terms of the social graph, right, which you cited from before, people have been able to get that from phones for more than a decade now, right? So I don't really think that that's been the thing for us. I think it's -- we're a serious technology company. We invest a lot in building infrastructure.

And culturally, we focus on moving and learning faster than everyone else. And I think that those are sustainable advantages. And so certainly, I think that the AI technology infrastructure that we're building, I think it can compound and be better than others in the industry and that will be an advantage and make the product better over time. But I think at the end of the day, what that really comes down to is just I try to push the company to be one that learns faster and just keeps iterating and moving faster than we did in the past than others in the industry do.

And I think if we can do that well, then we'll continue to succeed. But I think the moment that we stop doing that, then we'll basically fall behind. It's a very competitive field and we need to keep on pushing ahead. But I think the reason why we have succeeded and seen so good results with Facebook, Instagram and

the other social apps is because we basically focus pretty relentlessly on just pushing to constantly improve them.

And we're going to do that with AI too, and I feel pretty good about the internal results that we've gotten on this. It's a big effort at this point. We have multiyear road maps in place, so it's not like back when I was in a dorm room and just shipping code every week. I mean, some of these are, we're touching billions of people's lives and building really deep technologies.

These are long-term things. But I think the same principles basically still apply for how you want to build a company and stay ahead. And I think that that's going to be the sustainable advantage. But yes, I do think AI, if we can do this better in terms of recommendation systems, that's going to make Facebook better, it's going to make Instagram better.

It's going to make the ads better, which is why in my opening remarks, I talked about AI as one of the big technology waves that we're riding. I think it's certainly -- I think that's the truth. It's kind of a big underlying factor for our business, but we need to execute on that well, and I think we're starting to see a bunch of good results on that.

Operator

Our next question is from Youssef Squali with Truist Securities. Please go ahead.

Youssef Squali -- *Truist Securities -- Analyst*

Great. Thank you very much. Just, I guess, a follow-up on Reels, and thank you for the \$1 billion run rate commentary. But just kind of stepping back, how far behind is monetization of Reels versus maybe Instagram Stories right now? I think you mentioned earlier that it's already tracking ahead versus Instagram Stories were launched.

Just trying to get a sense of how long before we get to parity. Is it a matter of several quarters or several years? And maybe how quickly did Stories get to parity with News Feed back in 2018? And Mark, how important is M&A to you accomplishing your vision of the metaverse? And I ask because one of the regulatory agencies just today announced a lawsuit to block your acquisition of Within, a seemingly pretty small VR fitness app.

Dave Wehner -- *Chief Financial Officer*

Yes. Youssef, I'll take those. So in terms of Reels monetization and the Stories journey that we went on, Stories really started rolling out in earnest in, I think it was 2018. It really wasn't until this year that we, at least in the developed markets, got to parity on a monetization basis, on a time spent basis with Feed.

So it was a multiyear journey. I think we're still very early in that multiyear journey with Reels. So though we're proud of where we've gotten on a run rate basis, we're still very early in the trajectory of monetization. And we'll have to see we're able to do a great job of closing that gap with Stories.

I think there's always unique features in each different format that make an exact analogy imperfect, but we're optimistic on our ability to at least get a good ways on that journey toward closing the gap. In terms of M&A, there's -- M&A is definitely a component of our strategy, and we'll continue to look at acquisitions going forward. In terms of the specific announcement about the FTC looking to block the Within acquisition, I would refer you to our statement in the newsroom, but we believe that the acquisition of Within would be good for competition and expand the VR ecosystem and would attract new users to VR and make it a more productive space for new and existing developers. So we definitely take odds with the FTC's position on that.

Operator

Our next question is from Brent Thill with Jefferies. Please go ahead.

Brent Thill -- *Jefferies -- Analyst*

Thanks. Dave, just when you think about this downturn that you're in now in comparing to past downturns, many are asking, do you feel this is shallower? Is it more -- is there a longer duration in this? Is there any sense you have and how you think about the duration of what we're all seeing right now?

Dave Wehner -- *Chief Financial Officer*

Thanks, Brent, and you get the prize for asking just one question. The -- I think it's really -- there's a lot of unique factors in the place we are in right now. One is that we're also competing against these very strong periods for online advertising during the pandemic that make the downturn sort of coincide with some reversion to offline behavior that exacerbates the impact of, I think, what is a cyclical sort of finance-driven downturn with the reversion to sort of more offline behavior. So I

think you've got some unique things going on in the online ecosystem that do sort of exacerbate some of those cyclical effects because of the tough comps.

And we've seen, obviously, not just us, but others kind of experience that. I think in terms of prognosticating on the cycle itself and the duration, I'll leave that for better economists than I to understand how that may play out. But obviously, the continued difficult environment is factored into our Q3 guidance.

Operator

Our next question is from Ross Sandler with Barclays. Please go ahead.

Ross Sandler -- *Barclays -- Analyst*

Great. It's kind of something others have already asked on this call but maybe we could flush it out a little bit better. But you talk about medium term, gaining competitive advantage and gaining back market share on the revenue side. But I think some folks on this call are doubting that looking at the 2Q numbers, which obviously have like IDFA and Reels in there, but the 3Q guide compared to the likes of Google, Amazon, TikTok, and the numbers that they're putting up.

And if you look at previous times where you've gained competitive advantage, you also had a big data advantage that seemingly you may not enjoy post-IDFA anymore versus those other companies. So can you maybe flush out either specific products that you are working on, that you're pumped up about that could drive that competitive advantage on the revenue side and when that might happen? Is this a 2023 event or is this more kind of like long term that we think will claw that back?

Dave Wehner -- *Chief Financial Officer*

Yes. Thanks, Ross. I think there's a lot in there. So why don't I, at least, just take the components of it that I think that we can kind of address? I think Sheryl and Mark both outlined some of the areas that we're really focused on, on the revenue side.

Reels is obviously, right now, a tailwind to revenue, but we're excited about continuing to grow engagement on Reels and then grow monetization on that over time. So we think that's a very interesting venue for our clients to explore and advertise on, and that's going to create some real opportunities for them and us over time. We're also investing in AI to make our ads products better and we're

excited about what we can do there. And Sheryl talked about some of the different products there.

So we think that that will -- those are a couple of examples of things that will position us well. As it relates to kind of competitive dynamics, I think there's a lot of different things going on in the industry. Different companies are affected differently or not at all or not as significantly by things like the headwinds related to the iOS changes. There's also just different mixes of vertical businesses that affect the -- affect how different companies are affected by the current economic climate and the COVID lockdown.

So you've got a lot going on, but we're confident in our ability to continue to build the best products for users to be engaged as well as building great advertising products for businesses who want to reach those consumers.

Deborah Crawford -- *Vice President, Investor Relations*

Operator, we have time for one last question.

Operator

Our last question will be from Mark Mahaney with Evercore ISI. Please go ahead.

Mark Mahaney -- *Evercore ISI -- Analyst*

A couple of things. Dave and Sheryl, just wanted to wish you best of luck going forward, and Sheryl, particularly want to congratulate you. I think \$5 billion to \$120 billion over 14 years, that's pretty damn impressive, so congratulations. Wish you all the best going forwards.

Two questions. One on AI. Mark, you talked about the advantages of AI. Any update on how AI is done in terms of tackling content moderation issues? Do you feel like you've made some breakthroughs there? And then, Sheryl, you talked about this click-to-message marketing opportunity, and you've mentioned a couple of times over the last couple of calls, it's a couple of billion in revenue, but particularly strong, I think, in Latin America and the Rest of World.

Any thoughts on the opportunity for that as a business within North America and Western Europe? Is it just culturally different or are there certain things that can be done to make it just as good as strong in those markets as it is in the others?

Mark Zuckerberg -- *Chief Executive Officer*

Yes, I can take the first question on AI. Yes, on content moderation, most of this is done through AI today. And every quarter, we release a community standards enforcement report, where basically, the main metric is what percent of the harmful content to our systems identifying and taking an action on before someone has to report it to us. And those metrics are generally moving in the right direction and different things going on in the world make them sometimes fluctuate.

But in general, we've made a lot of progress there over the last few years, and I'm quite proud of that. We focused a lot of AI efforts there. And at this point, a lot of the newer AI efforts that we have, and we're obviously going to continue that work as well. But a lot of the new efforts are focused on recommendations of content and in these large sparse models that can do better content and ads recommendations with a much larger model with even sparse data.

So yes, pretty optimistic about that overall. All right. Sheryl?

Sheryl Sandberg -- *Chief Operating Officer*

Mark, thank you for those kind words, and also thank you for this question because this will be the last one I take and it's exactly the note I'd like to end on because it's a part of our business we're so excited about. Click-to-Messaging ads is one of our fastest-growing ad format. It's already a multibillion-dollar business for us, growing at double digits. And that's because, again, I think it follows the playbook we've had of building a consumer engagement that businesses can be part of having that consumer behavior happen first and then being able to work with businesses.

So messaging is hugely -- sorry, growing hugely quickly everywhere in the world. And we have particularly engaged broad very well-used messaging platforms and many of them. So when you think about consumers using it, we already know it, we already know that's happening. And then businesses are increasingly using it.

And you're right that we've seen a lot of that behavior start in other parts of the world. But we are seeing that behavior in North America and Europe as well. And I think we're deep believers that, that behavior will continue to grow all over the world. So that means the click-to-messaging ads become the perfect opportunity.

They help us move people from discovery to a direct relationship with a business. In a world where we're trying to do more with less data, they give businesses and

consumers a direct connection, so it's much easier to measure ROI. And so we're investing heavily. You can message a business from Facebook and Instagram feed from Facebook, Instagram, Messenger Stories.

To WhatsApp, Messenger, Instagram Direct, you can see how many entry points we have to drive real engagement and real demand. And I'll end with a case study. RoamHowl Creative, they're a small business consultancy. They used click-to-messaging ads for lead generation.

And then they compared those to their normal ads, which were driving website conversions. And the Click-to-Messenger ads resulted in 2.3 times more qualified leads, and this is important, a 57% lower cost per lead. And that doesn't even take into account the fact that it was measurable, that even if the return had been the same, they would have been able to measure it and attribute it more directly to our platforms. So we are hugely optimistic about this area of our business, and I am very convinced it will work and is already working everywhere in the world.

Deborah Crawford -- *Vice President, Investor Relations*

Great. Thank you, everybody, for joining us today. We appreciate your time, and we look forward to speaking with you again.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Deborah Crawford -- *Vice President, Investor Relations*

Mark Zuckerberg -- *Chief Executive Officer*

Sheryl Sandberg -- *Chief Operating Officer*

Dave Wehner -- *Chief Financial Officer*

Brian Nowak -- *Morgan Stanley -- Analyst*

Justin Post -- *Bank of America Merrill Lynch -- Analyst*

Eric Sheridan -- *Goldman Sachs -- Analyst*

Mark Shmulik -- *AllianceBernstein -- Analyst*

Douglas Anmuth -- *J.P. Morgan* -- Analyst

Michael Nathanson -- *MoffettNathanson* -- Analyst

Youssef Squali -- *Truist Securities* -- Analyst

Brent Thill -- *Jefferies* -- Analyst

Ross Sandler -- *Barclays* -- Analyst

Mark Mahaney -- *Evercore ISI* -- Analyst

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