Meta Platforms, Inc. (FB)
First Quarter 2022 Results Conference Call
April 27th, 2022

Deborah Crawford, VP, Investor Relations

Thank you. Good afternoon and welcome to Meta Platforms' first 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 annual report on form 10-K 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. 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, CEO

Hey everyone, and thanks for joining us today.

We made progress this quarter across a number of our priorities, and our community continues to grow. More people use our services today than ever before, and I'm proud of how our products are serving people across the world during what has been a difficult period for a lot of people.

I talked last quarter about some of the near-term challenges facing our business. Some are specific to Meta, like our transition to short-form video, which doesn't monetize as well for now, but which we're quite optimistic about over the long term. Some are specific to our industry, like signal loss resulting from Apple's iOS changes, which is a meaningful headwind but we also expect that with the right technology investments we'll navigate okay over time. Other challenges are broader macro trends, like the softness in ecommerce after the acceleration we saw during the pandemic. The war in Ukraine, which is a real tragedy on a humanitarian level, has also had an impact on our business. We've been blocked in Russia and we decided to stop accepting ads from Russian advertisers globally. We've also seen effects on business globally following the start of the war.

Taking a step back, I want to share some thoughts on our business trajectory and operating philosophy.

First, I think it's useful to level-set on our business trajectory over the last few years. After the start of Covid, the acceleration of e-commerce led to outsized revenue growth, but we're now seeing that trend back off. However, based on the strong revenue growth we saw in 2021, we kicked off a number of multi-year projects to accelerate some of our longer term investments, especially in our AI infrastructure, business platform, and Reality Labs. These investments are going to be important for our success and growth over time so I continue to believe we should see them through. But with our current business growth levels, we're now planning to slow the pace of some of our investments. Dave will give more detail in his commentary.

I also want to share how I'm thinking about investments and margins. Last year we began looking at our business as two segments -- Family of Apps and Reality Labs. On the Family of Apps side, I am confident that we can return to better revenue growth rates over time and sustain high operating margins. In Reality Labs, we're making large investments to deliver the next platform that I believe will be incredibly important both for our mission and business -- comparable in value to the leading mobile platforms today. I recognize that it's expensive to build this -- it's something that's never been built before and it's a new paradigm for computing and social connection.

So over the next several years our goal from a financial perspective is to generate sufficient operating income growth from Family of Apps to fund the growth of investment in Reality Labs while still growing our overall profitability. Unfortunately, that's not going to happen in 2022 given the revenue headwinds, but longer term that is our goal and our expectation. Of course, our priority remains building for the long term, so while we’re currently building our plans to achieve this, it’s possible that prolonged macroeconomic or business uncertainty could force us to trade off against shorter term financial goals. But we remain confident in our long term opportunities and growth.

Now with that, I want to dive deeper on what we're seeing in three of our main investment priorities that I expect to drive this growth: Reels, ads and the metaverse.

Let's start with Reels. There are two key trends that we're seeing here: first, the increasing popularity of short-form video, and second, the advancement of AI recommendations driving more of our feeds and rather than just social content.

On the first point, since I started Facebook 18 years ago, we've seen multiple shifts in the media types that people use. We started as a website primarily with text. Then people got phones with cameras, and the main format became images on mobile apps. In the last several years, mobile networks have gotten faster and now video is the main way that people experience content online.

Short-form video is the latest iteration of this, and it's growing very quickly. Reels already makes up more than 20% of the time that people spend on Instagram. Video overall makes up 50% of the time that people spend on Facebook, and Reels is growing quickly there as well.

The second point is that while we're experiencing an increase in short-form video, we're also seeing a major shift in feeds from being almost exclusively curated by your social graph or follow graph to now having more of your feed recommended by AI, even if the content wasn't posted by a friend or someone you follow. Social content from friends and people and businesses you follow will continue being a lot of the most valuable, engaging and differentiated content for our services, but now also being able to accurately recommend content from the whole universe that you don't follow directly unlocks a large amount of interesting and useful videos and posts that you might have otherwise missed.

Overall, I think about the AI that we're building not just as a recommendation system for short-form video, but as a Discovery Engine that can show you all of the most interesting content that people have shared across our systems. In Facebook, that includes not just video but also text post, links, group posts, reshares and more. In Instagram, that includes photos as well as video. In the future, I think that people will increasingly turn to AI-based Discovery Engines to entertain them, teach them things, and connect them with people who share their interests. I believe our investments in AI, all the different types of content we support, and our work to build the best platforms for creators to make a living will increasingly set our services apart from the rest of the industry and drive our success. We're also finding that having an ambitious vision around building the world's Discovery Engine is attracting a lot of the most talented AI folks to work on this program.

Next, let's talk about ads. Sheryl will discuss this in more detail, but I want to highlight that this is also a large AI investment for us. There are three main trends to highlight in our ads business right now.

First, we're managing headwinds from the shift to short-form video that I just mentioned. In the near term this is a drag on revenue because Reels monetization is less than feed or stories, but I expect that will improve over time. We've seen this type of media format transition multiple times before. Back in 2012 when we transitioned from desktop feed to mobile feed, we saw mobile feed growing massively but not monetizing well yet, and we leaned into it, went through some tough quarters, and then it became the foundation of our business today. Similarly, in 2018, when people started using stories more instead of feed but stories didn't monetize as well as feed yet, we still doubled down on stories, had another tough period but came out stronger than ever. So we've run this play before and we're running it again now. We're focusing on growing Reels as a major part of the Discovery Engine vision, and we expect that this expansion in engagement to shift from a short-term headwind to a tailwind at some point.

While this is playing out, we're also managing the headwinds from signal loss that we've discussed a lot recently. This means growing first-party understanding of what people are interested in by making it easier for people to engage with businesses in our apps -- whether that's completing purchases on Facebook or Instagram, or messaging businesses on WhatsApp or Messenger. It also means making sure we build the best privacy enhancing technologies to provide accurate targeting and measurement to advertisers even when purchases aren't happening within our apps.

We're making major AI investments to build the most advanced models and infrastructure in the industry. Over the next year or two, we hope that this drives better recommendations for people, higher returns for advertisers, and increases our revenue growth even in the face of signal loss. Over the longer term, I think that these large technology investments can provide a sustainable competitive advantage over others in the industry.

The last priority I want to discuss today is the metaverse. While we're focusing on the biggest opportunities and challenges of today, I think it's important to build the foundation for the next era of social technology as well.

The centerpiece of our strategy is the social platform that we're starting to build with Horizon. It's still early but as we build out the experience, the next focus will be on growing the community. We plan to launch a web version of Horizon later this year that will make it easy for people to step into metaverse experiences from a lot more platforms, even without needing a headset. I think the best experience will be on virtual and eventually augmented reality platforms -- and especially on our platforms like Quest, where in an upcoming release, from the moment you put on your headset you’re going to be embodied in your Meta avatar and ready to interact in Horizon with your friends right from your Quest home. But making this available everywhere will mean you can interact with anyone on whatever device or platform that they want to use. Our other focus for Horizon is building out the metaverse economy and helping creators make a living working in the metaverse. We expect to be meaningfully better at monetization than others in this space, and we think that should become a sustainable advantage for our platforms as they develop.

On the hardware side, Meta Quest 2 continues to be the leading virtual reality headset. Later this year, we'll release a higher-end headset, codenamed Project Cambria, which will be more focused on work use cases and eventually replacing your laptop or work setup. This premium device will have improved ergonomics and full color passthrough mixed reality to seamlessly blend virtual reality with the physical world. We're also building in eye tracking and face tracking so that your avatar can make eye contact and facial expressions, which dramatically improves your sense of presence.

It's also a good example of why we're developing hardware in addition to the social platforms. We're bringing Horizon to more platforms, but if you want to be able to make eye contact or have your physical facial expressions just automatically get translated to your avatar in real-time, then our hardware will provide the best metaverse experience -- whether you're playing a game or meeting with co-workers in Horizon Workrooms. We'll share more details about Project Cambria in the months ahead as we get ready to launch it.

I believe the areas we've discussed today are the right places to be doubling down on our work. The questions we face are not going to be resolved overnight, but we've also faced a number of these challenges before so I'm confident that we can navigate this period while continuing to invest in our future.

I'm grateful for everyone on our team executing on this important work, for our partners, and for our investors who believe in us and the future that we're building together. And now, here's Sheryl.

Sheryl Sandberg, COO

Thanks Mark – and hi everyone.

Our total ad revenue in Q1 was $27 billion, which is up 6% year-over-year. We saw solid growth in APAC and Rest of World, but a more challenging environment in North America and Europe. Despite the headwinds Mark described a moment ago, we saw meaningful growth in areas like video ads and Click-to-Messaging ads.

The changes to the ads landscape over the last year have caused significant disruptions to the ways many businesses advertise online. Our teams are working closely with our partners to help them navigate this new environment so they can continue to get great return-on-investment. And we're focused on building products and tools that grow their businesses and ours over the long term.

I want to pick up on what Mark said about our ads strategy. As he described, it's focused on three main areas. One, growing video monetization, especially short-form video like Reels. Two, evolving our ad systems to do more with less data. And three, investing in AI and Machine Learning to support our ads infrastructure.

First, video. Half of the time spent on Facebook is video, and video surfaces on Facebook were a significant source of revenue growth in the first quarter. People already watch a lot of longer form video content that's eligible for In-Stream ads, which we monetize well. Stories monetization continues to grow across Facebook and Instagram. And with Reels growing quickly, there's also a big opportunity as we get better at monetizing short-form video over time.

We've accelerated our efforts to improve the Reels ads format. Our experience monetizing Stories is directly applicable here. We're leveraging what we learned with Stories ads to create ads for Reels that have a native format, perform well, and are easy for advertisers to create.

We're working closely with our partners to help them make the most of the opportunity with video – like experimenting with new formats and with campaigns that utilize multiple types of video ads. A great example is the US restaurant chain Wendy's. They used a range of video formats across feed, stories, Reels and in-stream to promote their March Madness campaign, driving consumers to the first virtual Wendy's restaurant in Horizon Worlds. We also worked with them to promote the campaign in Horizon Worlds itself, with a virtual welcome screen directing people to what they called "the Wendyverse". The campaign was a big success, reaching 52 million people, and improving Wendy's brand and message awareness across a number of metrics.

Second, evolving our ads system. Our focus is on paving the way for the next era of personalized advertising, and there's work we're doing over the near, medium and long term.

In the near-term, we're working closely with advertisers to help them navigate the new landscape, while we evolve and improve our ad solutions. For example, we're encouraging partners to integrate with our Conversions API to create a direct, reliable, and privacy-safe connection between their marketing data and Meta. And we've recently introduced a faster and easier way for SMBs to integrate with it called the Conversions API Gateway.

One way we're helping advertisers get better insights with less data is with conversion modeling. This can help them understand measurement and campaign performance, even when we're not able to see or aggregate certain conversions.

We're also helping businesses connect directly with customers and grow more onsite data conversions through products like Click-to-Message ads. This is where you click on an ad in your Facebook or Instagram feed and it opens a chat with the business in Messenger, Instagram Direct or WhatsApp. It's already a multi-billion dollar business, with healthy double digit year-over-year growth in Q1.

A great example is Deichmann – Europe's largest footwear retailer. They built a fully automated virtual Shoe Assistant to give customers personalized footwear recommendations, and promoted it through Click-to-Messenger ads on Facebook. They had an 85% click-through rate and saw 30% more incremental purchases than with their usual link ads.

In the medium term, we see an opportunity to grow other onsite conversion products like Lead ads, which make it easier for businesses to generate leads, and Shop ads, which direct you to a brand's digital storefront on Facebook or Instagram. It's still very early for Shop ads, but we think driving people to Shops can be a compelling objective for commerce advertisers as we continue to improve our onsite commerce tools.

Over the longer run, we're also developing privacy-enhancing technologies which will help us minimize the amount of personal information we process while still allowing us to show people relevant ads and measure performance for advertisers. And we're collaborating across our industry on these and other standards that will support this next era of personalized advertising.

Third, AI and Machine Learning, which are crucial components of these privacy-enhancing technologies and will drive improvements over time to our ads ranking and measurement capabilities. We're significantly increasing our investment in AI and Machine Learning across the company this year and a large portion of this is going towards ads.

We continue to innovate in order to deliver better performing ads in general, and these investments will help us do that while processing less individual level data. We also have a range of automated tools to make it easier for advertisers to create, manage and improve the performance of their ad campaigns. We're constantly working to improve these tools and make them simpler for advertisers to use.

Taken together, we think our range of solutions can help advertisers get better results now and over the longer term. We're confident our apps will continue to be the best places for advertisers to reach people where they get measurable outcomes long into the future.

As ever, I want to say thank you to our partners, large and small. And to our teams who are working so hard to deliver great results for businesses everywhere.

Now, here's Dave.

Dave Wehner, CFO

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.

Q1 total revenue was $27.9 billion, up 7% or 10% on a constant currency basis. Had foreign exchange rates remained constant with Q1 of last year, total revenue would have been about $893 million higher.

Q1 total expenses were $19.4 billion, up 31% compared to last year. In terms of the specific line items:

Cost of revenue increased 17%, driven primarily by core infrastructure investments, payments to partners and content-related costs.

R&D increased 48%, mainly driven by hiring to support Family of Apps and Reality Labs.

Marketing & Sales increased 16%, mainly driven by hiring and marketing spend.

Lastly, G&A increased 45%, driven mainly by legal-related costs and employee-related costs.

We added over 5,800 net new hires in Q1, the majority in technical functions. We ended the quarter with over 77,800 full-time employees, up 28% compared to last year.

First quarter operating income was $8.5 billion, representing a 31% operating margin.

Our tax rate was 16%. Net income was $7.5 billion or $2.72 per share.

Capital expenditures, including principal payments on finance leases, were $5.5 billion, driven by investments in data centers, servers, network infrastructure and office facilities.

Free cash flow was $8.5 billion. We repurchased $9.4 billion of our Class A common stock in the first quarter and we ended the quarter with $43.9 billion in cash and marketable securities.

Now moving to our segment results.

I'll begin with the Family of Apps segment.

Q1 Total Family of Apps revenue was $27.2 billion, up 6%.

Q1 Family of Apps ad revenue was $27.0 billion, up 6% or 10% on a constant currency basis.

Growth decelerated from the fourth quarter due to a variety of factors.

Prior to the war in Ukraine, we faced expected headwinds related to the continued slowdown in our online commerce vertical which had grown quickly during the COVID-19 pandemic as well as ongoing targeting and measurement challenges impacting advertising spend.

We experienced a further deceleration in growth following the start of the Ukraine war due to the loss of revenue in Russia as well as a reduction in advertising demand both within Europe and outside the region. We believe the war introduced further volatility into an already uncertain macroeconomic landscape for advertisers.

Foreign exchange rates were also a headwind to growth in the quarter.

On a user geography basis, year-over-year ad revenue growth was strongest in Rest of World and Asia-Pacific at 21% and 20%, respectively. North America grew 1% and Europe was flat year-over-year. Europe advertising revenue was disproportionately challenged by the factors related to the war in Ukraine.

In Q1, the total number of ad impressions served across our services increased 15% and the average price per ad decreased 8%.

Impression growth was driven primarily by Asia-Pacific and Rest of World. The year-over-year decline in pricing was driven primarily by the ongoing mix shift in ad impressions towards regions and surfaces that monetize at lower rates.

Family of Apps other revenue was $215 million, up 9% as revenue growth from the WhatsApp Business API offset a decline in payments-related revenue earned from games.

Family of Apps expenses were $15.7 billion, up 27% driven mainly by employee-related expenses, infrastructure costs, and legal costs.

Family of Apps operating income was $11.5 billion, representing a 42% operating margin.

We estimate that approximately 2.9 billion people used at least one of our Family of Apps on a daily basis in March, and that approximately 3.6 billion people used at least one on a monthly basis.

Facebook daily active users were 1.96 billion, up 4% or 82 million compared to last year. DAUs represented approximately 67% of the 2.94 billion monthly active users in March. MAUs grew by 83 million or 3% compared to last year. Europe DAUs and MAUs declined sequentially and were negatively impacted by the loss of users in Russia following the government's block of Facebook in the country. We expect this trend to continue in the second quarter and this will likely cause Global MAU to be flat to down sequentially.

Within our Reality Labs segment, Q1 revenue was $695 million, up 30%, driven by Quest 2 sales. Reality Labs expenses were $3.7 billion, up 55%, driven by employee-related costs, R&D operating expenses and cost of goods sold.

Reality Labs operating loss was $3.0 billion in the first quarter.

Turning now to the outlook.

We expect second quarter 2022 total revenue to be in the range of $28-30 billion. This outlook reflects a continuation of the trends impacting revenue growth in the first quarter, including softness in the back half of the first quarter that coincided with the war in Ukraine. Our guidance assumes foreign currency will be approximately a 3% headwind to year-over-year growth in the second 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, and we are pleased with the progress on a political agreement.

Turning now to the expense outlook.

We expect 2022 total expenses to be in the range of $87-92 billion, lowered from our prior outlook of $90-95 billion. We expect 2022 expense growth to be driven primarily by the Family of Apps segment, followed by Reality Labs.

We expect 2022 capital expenditures, including principal payments on finance leases, to be in the range of $29-34 billion, unchanged from our prior estimate.

Absent any changes to U.S. tax law, we expect our full year 2022 tax rate to be above the Q1 rate and in the high teens.

In closing, our advertisers are adjusting to a new digital advertising landscape brought about by recent mobile platform changes while navigating a complex set of macroeconomic challenges. Given the resulting revenue headwinds, we have adjusted our plans for hiring and expense growth this year.

We continue to see a lot of opportunity across our investment priorities and remain committed to dedicating additional talent and capital towards these areas while ensuring our investment plans are appropriately calibrated to the operating environment.

With that, France, let’s open up the call for questions.

Operator: Thank you. We will now open the lines for a question and answer session. To ask a question, press “one” followed by the number “four” on your touchtone phone. Please pick up your handset before asking your question to ensure clarity. If you are streaming today’s call, please mute your computer speakers. And our first question is from the line of Brian Nowak with Morgan Stanley. Please go ahead.

Brian Nowak: Thanks for taking my questions. I have two. The first one on Reels engagement. I appreciate the color about the percentage of time that's going through Reels. I wanted to ask about the incrementality of that time. Maybe can you talk to us a little bit about what you're seeing on total time spent on both core Facebook as well as Instagram in the U.S. as you're seeing this really strong Reels engagement moving through the overall user base?

And then the second one, Dave, I wanted to ask you about CapEx. Understanding this year, there's investments in AI and machine learning, et cetera. How should we think about how much of this year's CapEx is sort of onetime-ish that may not persist on a multiyear basis? Or is it better to think of it as maybe the capital intensity of the business could just be structurally higher going forward? Thanks.

David Wehner: Hey Brian, I'll take a crack at both of those, and then Mark can add any color if he wants. In terms of cannibalization, Reels does pull time away from other surfaces, but we do believe it's additive to overall engagement. And we've seen that in the past with other products like Stories. And so, we're seeing a similar pattern there.

In terms of overall engagement for both Facebook and Instagram, there's a lot of complexity with kind of looking through the period of COVID because that tends to create a lot of different peaks and troughs in engagement. But if you look back, engagement for both Facebook and Instagram, remain above the levels they were at pre-pandemic and that's true both globally and in the U.S. So, I think we're pleased with that.

On the CapEx front, let me just sort of address the overall ramp. It's true we are investing significantly in AI and machine learning investments to power ranking and recommendations for things like Ads, Reels and Feed. And so that does add to the CapEx intensity of the business.

And we do think there is additional capital intensity of the business as we make significant investments in AI and machine learning on top of just additional capacity growth. We're not sharing an outlook beyond 2022 at this point. France, you can go to the next question. Go ahead.

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

Eric Sheridan: Thank you so much for taking the questions. Maybe one big picture and one more micro question. Mark, I think one of the questions we get the most from investors is when you think about where you're trying to go with the Metaverse longer term, how do you think about the investment cycle versus the monetization cycle when you think about creating hardware, both on the physical side and the distribution layer for hardware versus the content and the creator cycle you need to solve for on the Metaverse over the medium to long term?

And second, I don't know if I missed it or not, but I think last quarter, you called out on the Apple privacy changes, that the headwind might get worse in Q1 than it was in Q4. Can you give us an update on how those headwinds continue to evolve? And whether what you over the last couple of years have somewhat future-proofed against future changes that Apple might make in the iOS ecosystem? Thanks so much.

Mark Zuckerberg: Yes, I can give some context on the first one and then Dave can speak to the second question. I think that the cycle here between investment and meaningful enough revenue growth to be near or very profitable is going to be long. I think it's going to be longer for Reality Labs than for a lot of the traditional software that we've built.

And if you think about -- just a bit of context that may be useful on why we've ramped expenses so much is especially with the success that we've seen with Quest 2, we're now basically funding product teams to be building our future products, two or three versions into the future. Because when you're designing hardware, it's -- these are multiyear plans that you're building and kind of figuring out all the pieces that are going to go into that.

So we have multiple teams in parallel that we've sort of now spun up. This goes for VR as well as augmented reality and the other work that we're doing and is sort of driven by the success that we feel like we're seeing in the markets and the technology is starting to be ready to really ramp up.

So those expenses, we're experiencing today. I mean, having those teams operating is something that you see weigh on the results and is one of the reasons why I think the growth rates and expenses have been so high, and I think we'll continue investing more over some period. But at some point, we will have all those product teams fully staffed for a few versions into the future and then the growth rates there will come down.

But it's not going to be until those products really hit the market and scale in a meaningful way and this market ends up being big that this will be a big revenue or profit contributor to the business. So that's why I've given the color on past calls that I expect us to be later this decade, right?

Maybe primarily, this is laying the groundwork for what I expect to be a very exciting 2030s when this is like -- when this is sort of more established as the primary computing platform at that point. I think that there will be results along the way for that, too. But I do think that this is going to be a longer cycle.

Some of the software parts of what we're doing in the Metaverse will, I think, have near-term opportunities to monetize. And I think we'll see how that goes. Certainly, Horizon will roll out across all platforms and there will be a number of things that we can do there that will have shorter cycles that might resemble a little bit more what we're used to with apps. But overall, I think that that's kind of the context that I want everyone to have on that.

David Wehner: Hey Eric, I'll take the second part -- the second question that you had. We expect -- we've expected ongoing privacy headwinds from the iOS changes, and we continue to see them. Those are obviously factored into our Q2 outlook, along with the impact on demand that we're seeing from things like the war in Ukraine.

More specifically, ATT continues to be a headwind, but we're also seeing incremental headwinds from iOS 15 and other regulatory changes. And again, we factored all of those headwinds into our Q2 outlook. Of course, any outlook on platform headwinds depends in part on the platforms themselves and how they write and enforce their policies. So I'd sort of put that caveat in as well.

When you look at what we're doing to mitigate those near-term, we're working on improvements to our current solutions and Sheryl talked about some of those, like privacy-enhanced technologies.

Medium term, we see the opportunity to move clients more towards on-site conversions. We're seeing a lot of success in things like Click-to-Messaging ads, lead gen ads, and then a more nascent effort in shop ads. And then longer term, we're rebuilding our ads stack to employ more machine learning and AI to be more effective at ads with less data. So we think we've got a response that we're building into the new environment, and we're optimistic about the future.

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

Justin Post: Great, thanks. Dave, maybe I can follow on. You gave an outlook for maybe $10 billion headwind this year. Is it fair to assume a decent chunk of that in Q1 and when you lap that in Q4, you could see progress?

And then I think there is a lot of concern for the social companies on Apple 16 potential changes with IP addresses and other factors. In the past, you've been able to call out potential headwinds. In the future, I'm wondering if you have -- if you can say anything about iOS 16 or how you're thinking about potential future Apple changes? Thank you.

David Wehner: Yes, sure. On the $10 billion impact, we shared our estimated $10 billion impact on ATT last quarter to give a sense of the order of magnitude, and we believe it's still to be that order of magnitude on the expected impact. It's not a precise point estimate and we don't plan to update it.

Also worth noting, it's -- that's not a -- it's not a lapping. There was an impact from ATT in the second half of last year as well. So that's not a -- all in the increment. There was an impact last year. Also beyond ATT, we expect to see additional targeting and measurement headwinds from iOS 15 and other regulatory changes. I don't think we have anything at this point to share about 16.

And then I think also, Justin, you asked about sort of the second half, we would expect the growth rate in Q3 to be modestly higher than the Q2 rate since we will be lapping the first full quarter impact of ATT in Q3, but there's obviously a lot of uncertainty baked into our Q2 outlook, and that implies uncertainty in the second half as well.

Operator: Our next question is from Doug Anmuth with JPMorgan. Please go ahead.

Douglas Anmuth: Thanks for taking the questions. First for Mark, just curious as AI curation of content takes over from social cues, I was hoping you could talk about what some of the biggest changes will be to the user experience and then perhaps monetization as well long term?

And then second, in terms of Reels, how do you think about the timing for turning on ads more? And what needs to happen in the product for that to happen? Thanks.

Mark Zuckerberg: Yes. So I can talk about the AI-driven recommendations and discovery engine part. And then, maybe I can start to give some context on the ads too and then someone else can jump in there. I think the biggest shift here is that now the universe of content that are candidates to show in a person's feed is way bigger.

It used to just be, okay, here are the people, here are the friends or businesses or pages that you follow. Maybe it was on the order of 1,000 or a few thousand potential posts a day that we could show and we built a News Feed system that could help rank those to show the most interesting ones to you at the top.

But fundamentally, that was more a challenge of ranking a relatively small number of posts in the order that would be optimal. Now it's a much more open-ended thing. There are millions of pieces of content that we could potentially show a person.

And as our understanding of people and our understanding of content gets better through AI, we're now better able to, across all different content types, text links, photos, short-form videos, long-form videos, everything basically built to understand what the content is about, match it more with what people are interested in, which just means that there's a lot more candidates to show people.

The social content from your friends, I think will continue being a lot of the most unique and valuable content in the system, so that will still be there. But in addition to that, you'll now have a lot of other interesting content. So overall, what does that mean? I think it will -- this will be a -- it will make the services more interesting. It will mean that there's more interesting stuff to consume and interact with, both in Facebook and in Instagram, which should contribute to engagement over time.

The parts of this that are about Reels, I think have some specific monetization questions where we need to ramp up that format. But the parts of this, which are just about showing better content in Feed, should actually monetize quite naturally. And that's something that I think we're going to -- we're starting to see that kind of ramp up in Facebook and Instagram already as a part of the experience.

On the Reels monetization side, I mean, I think the main question here is, there's the cycle, which -- I mean, Sheryl should probably jump in and talk a little bit more about this, is just takes some time for all the advertisers to optimize the creative, right? It's like when we started doing Stories, they had ads that were designed for News Feed. And it just took some time for them to create effective content for Stories. And I think we're going to see the same thing for Reels.

And the way we think about the pacing of this is that we do show ads with Reels but we're going to show more as the content gets better and as that ramps up to not be a big kind of pain point in the user experience, where we basically match this. So that way as the ads get better across all these different formats, we're willing to show more of them. And that's why improving the quality of ads has also been really important for our business. So I'm not sure if there's anything else you want to add on that, though, Sheryl.

Sheryl Sandberg: No, I think it's a really important thing to think about because it's something we're very optimistic about. We have great consumer engagement on Reels. We have fast growth. And we have a playbook for taking that kind of consumer engagement and rolling out ads into the experience.

This is going to be a multiyear journey like Stories, but it's one we're very optimistic about. And as Mark said, it's about helping advertisers create the format of ads that matches the content.

Now what we've learned over time is the more we do for our advertisers, the better off we are, the more we automate it, the more we can help them target, the more we can help them form the creative and the experience we have, putting ads and stories is directly applicable. But the other reason we're really optimistic is we think this can create great results for advertisers.

And at the end of the day, advertisers are chasing ROI; they're going to go where they get a return on their investment. And while this still monetizes at a lower rate versus Feed and Stories, advertisers who are using it are seeing really promising results. I'll share an example.

Prose is a direct-to-consumer hair care brand, and they A/B tested adding a Reels ad placement to their usual campaign, they saw a 23% lower cost per purchase, a 52% higher unique audience reach, and 3x higher video completion. So what that says is that this format works not just for this advertiser, but we're hearing this from many across the board and we think we can help a lot of advertisers adopt this in the coming years.

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

Youssef Squali: Great, thank you for taking the questions. I have two. First, Mark, on the regulatory front, it looks like European and U.S. regulators are getting more aligned on how to proceed to address issues like antitrust and interoperability. The news on the transatlantic data transfers seems pretty positive. Just stepping back and looking at the new environment that seems to be formed, particularly between European and U.S. regulators, do you see this as being more favorable or less favorable to Facebook?

And then maybe this is for Dave. With the stock down so much, can you maybe talk about employee retention and how you think about cash comp versus stock-based comp in the current environment? Thank you.

Sheryl Sandberg: I'll take the regulatory question. Now is a really critical and interesting time in regulation for our industry because the rules that are governing the Internet are being rethought and rewritten, certainly in Europe but increasingly around the world. You spoke about the DMA.

We expect DMA to have significant challenges for our industry. We're working with European regulators on these rules. They are largely in range of what we were expecting, but the final text has not been released yet, and the details on this will matter. But overall, the regulatory environment is a real challenge for our industry. One we think we are well set up to meet, working closely with regulators and doing things in our technology like privacy-enhancing technologies to do more with less data.

So we expect this to can be -- this to continue to be a significantly challenging time, not just for us, but across our whole industry.

David Wehner: Yes. And Youssef, it's Dave. So on the retention and recruiting front, I mean, I'd say we continue to have success in recruiting as demonstrated by the 5,800 net new hires this quarter. So we're pleased with our ability to do that.

Also on the retention front, attrition, which has stepped up since what we experienced during the pandemic, is really still broadly consistent with levels that we had seen pre-pandemic. So it's definitely something that we're tracking and obviously, the stock price is something that we watch, but the trends are relatively in line with expectations. So from that sense, we feel like we're doing okay.

Operator: Our next question is from the line of Mark Shmulik with Bernstein. Please go ahead.

Mark Shmulik: Hi, yes hi. Thanks for taking the questions. The first, just on the strength that you saw over in kind of APAC and Rest of the World, can you share some color? Is that just less exposure to the macro? Is it the new users or something else?

And then the second question, Mark, last quarter, you kind of gave us your priorities for the year. And with the operating expense guidance down a little bit, any color you can share on how perhaps that's affected prioritization? Any changes in kind of spending intensity on some of the longer-term initiatives like the Metaverse versus some of the near-term stuff like business messaging? Thank you.

David Wehner: So I'll take the first question, sort of in terms of the regional growth. So growth slowed in all regions due to pricing headwinds. Currency was obviously a headwind in all the international regions. Europe decelerated very meaningfully, and the existing headwinds were compounded by the effects of obviously, the Ukraine war.

In North America, we have a relatively higher exposure to off-site objectives. So the targeting and measurement challenges continue to impact growth in that region more. Also, I'd note that in North America, impressions were down year-over-year in Q1. So ad impressions were down year-over-year, though the rate improved from Q4. So it was primarily a demand-driven deceleration.

When we look at APAC and the Rest of World, it benefited from strong demand in products like Click-to-Messaging ads. In Rest of World, growth decelerated the least of all regions.

Macro conditions in Brazil improved a bit after softness in the second half of 2021. And then in APAC, it was -- relative strength was pretty broad-based, but I'd call out particular strength in India, and that's benefiting from good supply tailwinds in terms of impression growth.

Mark Zuckerberg: Yes. In terms of priorities, it's -- our priorities are broadly consistent with what I've outlined on the last call. It was the beginning of the year, so I outlined a lot of the basic focus areas for the company, whereas on most earnings calls, I'll talk about a few areas that I've been particularly focused on.

I think we're pacing some of the investments across each of these areas. But more importantly, we're shifting the bulk of the energy inside the company towards those high-priority areas, away from other areas.

So we're a big company at this point. It's not just all about recruiting and adding new people from the outside. A lot of it is we have a lot of awesome people here and a lot of the decisions that we have to make on a day-to-day basis are how do we direct the really talented people who are already at the company, and we want to make sure that rather than just always relying on just getting more and more new people from the outside, which we're going to keep on doing, we're recruiting a lot, I want to make sure that our teams are disciplined about reprioritizing internally.

One thing that I want to add just as a bit of cultural commentary on the attrition question, is I don't think that this sort of volatility that companies face is always that unhealthy for making sure that you have the right people at companies.

I mean during COVID, we saw the attrition levels go down a lot because people didn't want to get new jobs, which probably meant that there were people who were staying at the company who didn't care that much about what we were doing as compared to what we would have wanted.

And I'm just trying to lead the company in a way where we're positioning ourselves as the premier company for building the future of social interaction and the Metaverse. If you care about those things, I think we're getting the best people to come work here. If you care about doing awesome AI work on stuff like the discovery engine, across all of these different types of formats, we're the only place that's doing that.

And that's a great problem. And that we're just seeing attract a lot of talent. And I know that sometimes people are critical of the ads model, but it drives a lot of value for businesses and people around the world. And I think the people who believe in that and want to see that continue to grow, I want them here, too.

So yes, I mean, I think we'll see attrition go up and down over time. I think we're doing okay now, as Dave says, but I don't necessarily think that periods like this, where we're prioritizing a little bit more where we're focusing and growing is going to be unhealthy over the long term. I actually think it's going to make us a better company.

Operator: Our next question is from Michael Nathanson with MoffetNathanson. Please go ahead.

Michael Nathanson: Thanks. I have one for Sheryl and one for Dave. Sheryl, in the past, you've been pretty clear that IDFA is a two-part problem, measurement and targeting. So can you give us an update on how close you are closing the gap on measurement from where you were before? And then targeting, which you said is a longer-term issue, can you give us a sense of how quickly do you think the AI solutions can maybe speed that up? And any updates on some of the consortiums that you've been talking about?

And then Dave, just quickly on Reels, it's clear it's a huge part of consumption. Can you give us a quantification, if you could, on the impact of revenue from not -- from having more Reels but not monetizing at the same rate or speed of traditional Newsfeed and Stories? So that's -- those are my questions. Thanks.

Sheryl Sandberg: So on the mitigation time-line, we've talked before and I've talked before about two key challenges from the iOS, which is what you mentioned, targeting and measuring performance. We're working through mitigations on both. They are both a multifaceted challenge and they're interconnected because better measurement leads to better targeting for advertisers.

On the first, we are improving our systems as we test and learn and supporting advertisers with best practices and we're working on automating tools that will help advertisers target better, and we have to do it with less data. We have to do more with more aggregated and anonymous data.

On measurement, we've been able to close a good part of the underreporting gap and shared that with advertisers, but the rest of the gap will take us longer to close. This is a particularly big challenge for small businesses, because we have to work with them. We have to work with them, obviously, in a longer tail and more resource-intensive way.

David Wehner: Yes. And I can address the Reels question. I think we've touched on it a few times. So I don't know if I have a whole lot that's additive, but it now makes up a meaningful portion of people's time on Instagram. Mark gave the stat that it's over 20% of people's time on Instagram. So that speaks to there being a good opportunity as we ramp ads in Reels, but it's very early days in terms of ads in Reels.

But that being said, it's going to take -- it's going to be, as Sheryl said, a multiyear journey. If you look at Stories, Stories we really began ramping in 2018. And at the end of last year, we mentioned that in developed markets, Stories on a sort of per time basis was monetizing at a similar rate as Feed.

So it took many years for that gap to close and there's still work to be done across the world on that front. But Reels is going to be a similar opportunity, but also it will take time for us to close that gap. But given that it's a good amount of time that people are spending in Reels, that is a good opportunity for us over that time period.

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

Ross Sandler: Yes, just one follow-up for Sheryl kind of related to that last question. So now that we're in this world where no one can use mobile IDs for targeting, there seems like there's a lot of interesting new ideas kicking around the industry around like cohort-based targeting or contextual or other kind of ID-free, privacy-centric targeting techniques.

So my question is, given the size of Facebook and all the first-party data that you have, how do you think some of these new techniques are going to perform relative to the rest of the industry? And when do you expect them to kind of show up in a more meaningful revenue way?

So I guess what I'm asking is, is the opportunity here to claw back some of that $10 billion of lost revenue? Or do you think looking forward, your competitive advantage, maybe even broader and you might be able to open up more ad dollars to Facebook with these new techniques? Any thought on that? Thanks a lot.

Sheryl Sandberg: Sorry, Dave and I are going back and forth. When you think about how we mitigate some of these challenges, there's a couple of things to think about. One, what are the solutions we have that can be on site.

So as we develop some of our commerce products as people are using things like Click-to-Messaging ads, Click-to-Messaging ads are a good example of to close the loop, at least to the point where you're connecting directly with a customer, happens on our service. If our commerce efforts are successful over the longer term, we'll be able to close that loop directly on our own service.

The other thing that was interesting in your question is you're right that this is about relative comparative advantage in a very highly competitive space that we have been able to use data, I think, in a privacy safe but very efficiently. Some of the data we've relied on has changed that's causing some near-term challenges and headwinds for us. But over the long run, once that settles out, advertisers are going to go where they get the best return.

So we have highly engaged platforms, we still have very important data that is first-party that we are able to use to target. We're working on measurement solutions and we're also working on things without the industry. So we think while these times are challenging, over the long run, we do have a very strong competitive advantage when you look across the opportunities advertisers have to advertise both offline and online.

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

Brent Thill: I know it's early on Reels monetization, but are there early learnings that you've learned and taken away so far that you could share? And then the second question we get is just on Reels budgets. Are they incremental to overall spend? Or are you seeing advertisers repurpose from Stories and Feeds into Reels? Thanks.

Sheryl Sandberg: I can take those. So on the first, it is the process I've described, which is that we know that if there's a consumer product that consumers are enjoying, we are able to move advertisers into that product if a couple of things are true.

As Mark talked about, the format of the ads fits into the format of the product. Reels, which is short-form video, which is text, which is pictures, is a great format for us because those are all things we've already done well, both on the consumer front but importantly on the ads front. So we are able to create the format of the ads and offer that to advertisers. Then we need to help advertisers create compelling ads and we need to help them place across our different properties. We have a lot of places you can place ads.

We have a lot of experience in this, and we are on a ramp. It is a multiyear ramp, but we've learned things, make it as automated as possible. For example, rather than ask advertisers create the perfect ad, the more you can ask advertisers to give you the components of that ad and create it for them, the better. Things we'll work on over time.

On targeting, try to figure out what are the advertisers' real end goals and then we can suggest the products that fit for those end goals. So if you tell us you're trying to get to on-site conversions or you tell us you're trying to get people to message you, we can then put you into different placements across our ad offerings. And Reels is a very compelling part of that.

On the incrementality of budgets, it's always both. When we roll out a new product, there's always some of the budgets, which are just being reallocated from other parts of our own platform because there are people who will have a Meta budget or a Facebook budget or an Instagram budget. Over time, our goal is to grow those budgets. And we do that the same way.

It is our large teams, feet on the street, working with our global advertisers and our largest clients, and it's our online ability to sell and monetize and grow that I think we are industry leading on working with SMBs, where we have to show them the returns and win their budgets. And when we roll out new products and partially it's incremental as long as we're really delivering great ROI compared to what they can get off of our platform, over time, those budgets can continue to grow.

Deborah Crawford: Great. Operator, we have time for one last question.

Operator: Very good. Our last question then will be from Alan Gould with the Loop Capital. Please go ahead. Mr. Gould, your line is open. Please go ahead.

Alan Gould: Thank you for taking the questions. Two questions. Dave, can you just confirm, did you say MAUs would be down sequentially in 2Q? And Mark, last quarter, you spoke -- you were quite open about the competitive issues on TikTok, which seemed to be impacting the whole industry now. Any way of quantifying how much you think TikTok is impacting Facebook? Thank you.

David Wehner: Yes, Alan, because of the loss of users in Russia, we do expect there to be a sequential decline in MAUs in Europe. And the -- we think that will feed over into overall global because I think that will tip it to be flat to down.

Just as a reminder, government restrictions on Facebook access in Russia were implemented in late February through early March. So some Russian users were still on our service as active users during our Q1 calculation. So part of that is just the way we calculate MAUs the last month of the quarter. And so that's going to spill over into Q2.

I think it's clear that short-form video is a massive opportunity for the industry broadly, and we're very pleased about the offering that we have with Reels and the opportunity for us to compete for share and time in the market. Obviously, other competitors are -- have strong offerings like TikTok, but we're pleased with what we've got with Reels and the efforts that we're making to grow that important product.

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

Operator: This concludes today's conference call. Thank you for joining us. You may now disconnect your lines.