

Facebook, Inc. (FB)
Fourth Quarter 2020 Results Conference Call
January 27th, 2021

Deborah Crawford, VP, Investor Relations

Thank you. Good afternoon and welcome to Facebook's Fourth Quarter and Full Year 2020 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. 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

Thanks everyone for joining us today. I hope you're all staying healthy and well.

Our community and business had a strong end of the year. As Covid continued to keep many of us apart and at home, people and businesses continued relying on our services to stay in touch and create economic opportunity. 2.6 billion people now use one or more of our apps each day and more than 200 million businesses -- mostly small businesses -- use our free tools to reach customers.

Those numbers give a sense of scale, but some of the stories we hear show the impact. Groups have formed where Covid long-haulers are helping each other through a scary experience where there's not much else to turn to. Teachers are sending class assignments to students through WhatsApp. Local bookstores and coffee shops are using Instagram to let customers know they're open for curbside pick-up. We saw people come together to raise \$1.8 billion for nonprofits and personal causes through our fundraising tools last year -- including \$175 million for Covid-related causes alone. I'm proud of the role our services played in helping people support each other during what has been such a hard time.

I've spent a fair amount of time on recent earnings calls talking about our election integrity efforts, so I'm not going to discuss them at length today, but I do want to call out that, according to our estimates, we easily surpassed our goal to help 4 million people register to vote as part of the largest effort to distribute authoritative voting information in recent history -- and I want to thank everyone involved in our teams and outside involved with that effort.

Today I'm going to focus on our product work, and specifically I'm going to focus on four themes that I'm excited about for the year ahead: communities, private messaging, commerce tools for small businesses, and building the next computing platform.

Let's start with communities. I think that helping people build communities is one of the most important things that we can do. Our social fabric is made of multiple different layers through which we get our social support. First, we have friends and family. That's the most personal layer. Then we have communities we're a part of -- where we feel a sense of purpose and belonging, explore interests, develop skills, grow as individuals, and meet new people. And then finally, there's the safety net that society and government provide. In many parts of the world, there's been an unfortunate decline in community participation over the last several decades -- that's that second layer. This isn't something that we can solve alone, but I think we can help. So now that we've helped billions of people stay connected with friends and family, helping everyone find and participate in communities that are meaningful to them has been our next goal. We even updated our mission a few years ago to reflect this, making it: "give people the power to build community and bring the world closer together."

Today, more than 600 million people are now members of a group on Facebook that they consider to be meaningful in their lives. This has grown steadily over time -- and I hear all the time from people who are in parenting groups that they're a major resource as they navigate raising kids, or from people who found a group that shares the same health condition and they can lean on that community for knowledge and support, or from people who've moved to a new place and joined local groups to meet people and get situated.

Our product focus now is to develop this community infrastructure beyond feeds and message boards to help people build and run full self-sustaining community institutions. So we're building tools to help groups get things done together and provide support for people that span messaging, video chat, and even communities' own websites. And we're exploring different ways to raise funds, including donations, merchandise and membership fees, to help group leaders support their community's operations, and hire people for different roles that are needed to build sustainable communities for the long term.

As we continue to focus on this, we need to make sure the communities people connect with are healthy and positive. That's something we've been focused on for a while now. One way of course that we do this is by taking down groups that break our rules against things like violence or hate speech. In September, we shared that we had removed more than 1 million groups in the last year alone. But there are also a lot of groups that we may not want to encourage people to join, even if they don't violate our policies. For example, we stopped recommending civic and political groups in the US ahead of the elections. We're continuing to fine tune how this works, but now we plan to keep civic and political groups out of recommendations for the long term, and we plan to expand that policy globally. To be clear, this is a continuation of work we've been doing for a while to turn down the temperature and discourage divisive conversations and communities.

Along these same lines, we're also currently considering steps we could take to reduce the amount of political content in News Feed as well. We're still working through exactly the best ways to do this. And to be clear, of course we'll still enable people to engage in political groups and discussions if they want to. These can often be important and helpful. They can be ways that people organize grassroots movements, speak out against injustice, or learn from people with different perspectives. So we want these discussions to be able to keep happening. But one of the top pieces of feedback we're hearing

from our community right now is that people don't want politics and fighting to take over their experience on our services.

So one theme for this year is that we're going to continue to focus on helping millions more people participate in healthy communities and we're going to focus even more on being a force for bringing people closer together.

Next, let's talk about private messaging. As we've discussed before, while people enjoy connecting with friends and communities in the digital equivalent of a town square in apps like Facebook and Instagram, the fastest growing social experiences are about connecting privately in the digital equivalent of the living room in services like WhatsApp and Messenger. That's why we kicked off a big effort a couple of years ago to re-imagine what a modern social platform would look like if you built it from the bottom up to be privacy-first.

We identified several core principles. A private social platform should be built around the most intimate interactions that we have: and that's one-on-one conversations. The most important aspect of privacy and security is that your conversations should stay between you. That means your conversations should always be end-to-end encrypted and they should disappear when you're done with them. Safety and reducing spam matter too, and that means that we should maintain a minimum amount of metadata to build sophisticated tools to stop bad actors using these services. You should have choice over what services you use, so we should make messaging as interoperable as possible across our apps. And, finally, no matter what, we should only store people's data in countries where we know we can keep it secure -- and we should continue opposing data localization in countries with weak records on human rights or privacy.

I think these are the privacy principles that matter most to people -- first and foremost people care that their conversations stay private, but after that people also care about safety and other convenience too. And from this perspective, WhatsApp -- and the direction we're heading in with Messenger -- are the best private social apps available.

We have a lot of competitors who make claims about privacy that are often misleading. Apple recently released so-called nutrition labels which focus largely on metadata that apps collect rather than the privacy and security of people's actual messages. But iMessage stores non-end-to-end encrypted backups of your messages by default unless you disable iCloud, so Apple and governments have the ability to access most people's messages. So when it comes to what matters most -- protecting people's messages, I think that WhatsApp is clearly superior.

Since I try to use these earnings calls to discuss aspects of business strategy that I think are important for investors to understand, I do want to highlight that we increasingly see Apple as one of our biggest competitors. iMessage is a key linchpin of their ecosystem. It comes pre-installed on every iPhone and they've preferenced it with private APIs and permissions, which is why iMessage is the most used messaging service in the US. And now, we're also seeing Apple's business depend more and more on gaining share in apps and services against us and other developers. Apple has every incentive to use their dominant platform position to interfere with how our apps and other apps work, which they regularly do to preference their own. This impacts the growth of millions of businesses around the world, including with the upcoming iOS14 changes, many small businesses will no longer be able to reach their customers with targeted ads. Apple may say that they're doing this to help people, but the

moves clearly track their competitive interests. I think this dynamic is important for people to understand because we and others are going to be up against this for the foreseeable future.

Our messaging services continue growing, but it's an uphill battle and our services need to be that much better as private social platforms to succeed. To make sure we remain the best, a couple years back we kicked off a number of long-term efforts that have started shipping recently, and more of these projects around strengthening encryption, ephemerality, interoperability and offering other tools are going to be shipping throughout this year.

Now, let's talk about commerce. Our goal here is to give every individual entrepreneur and small business access to the same kinds of tools that historically only the big companies have had access to. We've always cared about this, but the pandemic has made it more urgent.

It used to be the case that only large companies could afford to have analytics or targeted advertising capacity to reach their customers. It was expensive to build these capabilities and it often required building teams and storing large amounts of data in-house, which most small businesses can't do. One of the things I'm most proud of is that we build the tools so we can offer these same capabilities to small businesses, often for free. So when you hear people say that we hold a lot of data, that's because hundreds of millions of businesses that would have otherwise had to do this individually and would have had no easy way of doing so are now using our services to help them reach customers. When you hear people say that we're connecting data from lots of sources, that's to help small businesses reach customers more efficiently. Big companies often do this themselves, but small businesses can't a lot of time, so we do this for them. When you hear people argue that we shouldn't be doing these things -- or that we should go back to the old days of untargeted television ads -- I think that what they are really arguing for is a regression where only the largest companies have this capacity, small businesses are severely disadvantaged, and competition is diminished.

With our commerce tools, we've made it so that a business can set up a shop once, and then they'll have an online storefront in both Facebook and Instagram immediately, and eventually on WhatsApp and Messenger as well. We recently expanded checkout to all US businesses, making the process of buying a lot more seamless. And as the lockdowns continued, we saw more small businesses and creators also use Paid Online Events as a way to make money.

WhatsApp is also an important part of our strategy here. More than 175 million people message a WhatsApp business account every day and we're building new features to make it even easier to transact with businesses in the app. We introduced carts, which lets people browse catalogs, select multiple products, and send the order as a message to a business.

The more people that interact with businesses, the better tools we're going to need to provide for businesses to help them support their customers. Many businesses need more than a phone to manage their customer service, so we're building tools to let businesses store and manage their WhatsApp chats using our secure hosting infrastructure if they would like. We're in the process of updating WhatsApp's privacy policy and terms of service to reflect these optional experiences.

To clarify some confusion that we've seen, this update does **not** change the privacy of anyone's messages with friends and family. All of these messages are end-to-end encrypted, which means we can't see or hear what you say, and we never will unless the person you messaged chooses to share it. And business messages will only be hosted on our infrastructure if the business chooses to do so. We

want everyone to know the lengths that we go to to protect your private messages, so we're moving the date of this update back to give everyone time to understand what the update means.

Finally, let's discuss our work building the next computing platform. This is one of the areas that I'm most excited about our progress heading into 2021. If you look at the history of computing, every 15 years or so a new major platform emerges that integrates technology more naturally and ubiquitously into our lives -- starting with mainframes, then PCs, then browser-based computing, and then mobile. I believe that the next logical step here is an immersive computing platform that just delivers this magical sense of presence -- that you're really there with another person or in another place. Our phones can't deliver this, and neither can any other technology that has come before it. This is going to unlock the types of social experiences I've dreamed about building since I was a kid, and it's what we're building towards at Facebook Reality Labs.

We launched Quest 2 in October and it's on track to be the first mainstream virtual reality headset. We designed it so that anyone could jump in -- with the best and most immersive experience out there -- and at a price that makes it available to as many people as possible. I think that Facebook has done more than any other company to help bring virtual reality to the mainstream. It's been great to see so many people embrace this, especially this year during the pandemic. We're seeing people use it to play games with friends when they can't be together in person, to do workouts in their living room, or to meet with colleagues while working from home. There are a lot of reasons Quest 2 was one of the hot holiday gifts this year.

We're also seeing a growing ecosystem of developers building amazing new experiences for the platform. Right now, more than 60 Oculus developers are generating revenue in the millions -- that's nearly twice as many as a few months ago.

In previous quarters, I've talked about our long term, future goals when it comes to virtual reality. But I think this quarter's results show that this future is here.

Augmented reality glasses are going to be a key part of this vision too. We're still working on some of the foundational technology to underpin these -- and the ultimate product is still some years away. But this year we're excited to deliver a first glimpse of what will be when we launch our first pair of smart glasses from Ray-Ban, in partnership with Luxottica.

During this pandemic, we've also seen Portal has proven to be a great way for people to stay connected -- and especially over the holiday as families had to celebrate apart. This year, we're focused on expanding the role of Portal and virtual reality presence into the workplace -- bringing more features that can improve remote presence, collaboration and productivity.

2021 has a lot of unknowns. We don't know when vaccines are going to be widely available, when our teams will be back in the office, or when our lives will start feeling normal again. But what I do know is that we're going to keep investing in and innovating on the big themes that I discussed here in order to put more power in the hands of people and small businesses. I personally believe that technology can unlock progress and opportunity -- and that the full story of the Internet has not yet been written. That's why I'm hopeful for the year ahead, and grateful that you're all on this journey with us.

And now, here's Sheryl to talk about our business.

Sheryl Sandberg, COO

Thanks Mark, and hi everyone. I hope everyone is safe and healthy.

This was a strong quarter for our business, as the acceleration of online commerce we've seen during the pandemic continued into the holiday season. Our total revenue for Q4 was \$28.1B, which is a 33% year-over-year increase, our fastest growth rate in over two years.

After a really difficult year for so many businesses, this holiday period was important. And while many businesses are still struggling, the good news is that Q4 was stronger than expected for retail. In the U.S., the National Retail Federation reported that sales in November and December went up 8% year-over-year and online sales were up 24%. This holiday period was also longer; compared to previous years, advertisers started spending earlier and sustained that spend well beyond Black Friday and Cyber Monday. We saw robust performance across all regions, as well as an improvement in brand advertising.

The strength of our Q4 performance is the result of years of investments in free and paid tools to help businesses succeed online. Even before the pandemic, businesses were going digital. But Covid made this a necessity. Almost overnight, businesses had to create digital storefronts, figure out how to take online orders, and find new ways to reach their customers. For many small companies, these steps, or even just setting up a website or a mobile app can be difficult and expensive. Our free and paid tools help solve these problems for businesses around the world.

With so many businesses struggling when the pandemic hit, we asked our teams: what do businesses need, and how can we help?

First, they need the tools to get their business up and running online. So what can we do to make ours simpler and more effective, and can we build new ones to help them?

Second, they need the digital skills and know how to succeed. So how can we help more businesses with training and resources?

And third, they need their voices to be heard. So can we use our scale to amplify their voices and tell their stories?

We've been asking these questions throughout the last year and into Q4. On the first, we accelerated our work on tools to make it easier for people to find brands and products they love, and for businesses to manage their online presence and connect with customers. Mark talked about some of the new tools we've launched, like Shops and Paid Online Events. In the fall we also rolled out Facebook Business Suite, a new interface to help businesses manage their pages or profiles across our apps.

We also continued to invest in making our products as effective as possible, so businesses can get more value for every dollar they spend. Personalized ads are privacy safe and help businesses reach customers where they are – which has been more important than ever during the pandemic. One notable area of progress this past year was in Stories ads, which have become more effective for direct response advertisers.

One business that used Stories ads is Carlota Flower Lab, a florist in Los Reyes, Mexico. Before Covid, they made 70% of their revenue from face-to-face workshops. So when the pandemic hit, founder Paola

Mendoza had to get creative. She used personalized ads on Instagram to reach new audiences, and even found her first international customers with campaigns targeting California and Texas. One campaign for Día de los Muertos – the Day of the Dead – in November led to a 24x return on ad spend, helping Paola triple her annual revenue in 2020, despite Covid.

On the second, resources and training, we did some big things in 2020. We created a Business Resource Hub – a one stop shop for resources and trainings for small businesses that we’ve continued to build out through the end of the year. We committed to reach 1M members of the Black community and 1M members of the Latinx and Hispanic communities in the U.S. with free digital skills trainings through our Elevate program by 2023. And we reimagined our Boost with Facebook events to reach businesses virtually – with 100M people tuning in throughout the year. This included our 12-week Season of Support to help businesses across 16 countries prepare for the holidays.

On the third, a great example of how we amplified the voices of our businesses in Q4 is our #BuyBlack Friday campaign – one of my favorite campaigns ever. In the U.S., Black-owned businesses closed at twice the rate of others after the start of the pandemic, so we wanted to help people shop with them over the holidays. We created ways for people to find Black businesses in their local area, a Gift Guide featuring products from Black businesses across the U.S., and even a #BuyBlack Friday Show on Facebook Live that was seen by 15M people.

One of the small businesses we featured is a vegan skincare brand called Redoux from New York City. Its founder, Asia Grant, appeared on the #BuyBlack Friday Show – and that became one of her most successful sales days ever. The campaign gave her record revenue and web traffic, and she was even able to hire more people - something that’s so important given current unemployment rates.

Business owners like Asia and Paola have worked hard to adapt and grow online. But lots of businesses will continue to struggle in 2021. So we’re going to keep listening to them and building on what we did last year. That means improving our products and tools to help businesses seamlessly manage their online presence, advertise across our apps, and communicate with customers through business messaging. It means making more training available through programs like SheMeansBusiness for women and Elevate for diverse communities. And it means finding more ways to amplify their voices, whether it’s sharing the stories of small businesses worried that Apple’s iOS14 changes will hurt their ability to reach customers, or showcasing small businesses in gift guides and products like Businesses Nearby.

I want to close by saying how grateful I am to all of the businesses around the world who work with us. Your partnership helps us build the tools you need so you can continue to grow and hire. And, as always, I’m grateful to our incredible teams who have done so much to help businesses survive this difficult year, including coming up with great ideas like #BuyBlack Friday. I hope that 2021 is a better year for everyone.

Now, here’s Dave.

Dave Wehner, CFO

Thanks Sheryl and good afternoon everyone.

Q4 was a strong quarter, capping off a solid year for our business as full year 2020 revenue grew 22% to \$86 billion. We have been encouraged to see improved demand for our ads during the second half of the year after facing significant headwinds at the onset of the pandemic. Our results reflect the ongoing strength in the digital economy and the value we're providing to millions of businesses who use our services to reach consumers and generate sales.

Let's begin with our community metrics.

In December, we estimate that approximately 2.6 billion people used at least one of our services on a daily basis, and that approximately 3.3 billion people used at least one on a monthly basis.

Facebook daily active users reached 1.84 billion, up 11% or 188 million compared to last year. DAUs represented approximately 66% of the 2.80 billion monthly active users in December. MAUs grew 299 million or 12% compared to last year. Consistent with our outlook, US & Canada DAU declined 1 million sequentially as usage continued to normalize from peak COVID levels experienced earlier in the year.

Turning to the financials. All comparisons are on a year-over-year basis unless otherwise noted.

Q4 total revenue was \$28.1 billion, up 33% or 32% on a constant currency basis. We benefited from a currency tailwind and had foreign exchange rates remained constant with Q4 of last year, total revenue would have been \$339 million lower. Q4 ad revenue was \$27.2 billion, up 31% or 30% on a constant currency basis.

The growth in advertising revenue was largely driven by a strong holiday shopping season for retail, which benefited from the ongoing shift to online commerce.

On a user geography basis, ad revenue was strongest in Europe which grew 35% and benefited from currency tailwinds. US & Canada grew 31%, and Asia-Pacific grew 29%. Rest of World growth improved to 25% but continues to be significantly impacted by currency headwinds.

In Q4, the total number of ad impressions served across our services increased 25% and the average price per ad increased 5%.

Impression growth was driven by both Facebook and Instagram. The increase in average price per ad was driven primarily by FB mobile feed as well as pricing improvement in Instagram Stories.

Other revenue was \$885 million, up 156%, due to strong Quest 2 holiday sales. We've been encouraged by the positive reception of Quest 2 since its October launch.

Turning now to expenses.

Q4 total expenses were \$15.3 billion, up 25% compared to last year. In terms of specific line items:

- Cost of revenue increased 49%, driven primarily by hardware costs related to Quest 2 sales, core infrastructure investments, and payments to partners.
- R&D increased 34%, driven primarily by hiring and investments in core products as well as our consumer hardware efforts.
- Marketing & Sales increased 8%, driven by hiring and marketing spend.
- Lastly, G&A expenses decreased 13% as we lapped charges related to the BIPA legal settlement recorded in the fourth quarter of 2019.

In the past year, we added a record 13,600 net employees and reached our goal of adding 10,000 employees in tech and product roles. We ended the year with over 58,600 full-time employees, up 30% compared to last year. We continue to be pleased with our ability to recruit, onboard, and retain talent in this environment.

Fourth quarter operating income was \$12.8 billion, representing a 46% operating margin. Our tax rate was 14%. Net income was \$11.2 billion or \$3.88 per share.

Capital expenditures were \$4.8 billion, driven by investments in data centers, servers, office facilities and network infrastructure.

Free cash flow was \$9.2 billion and we ended the quarter with \$62.0 billion in cash and marketable securities.

For the full year we repurchased \$6.3 billion of our Class A common stock and had \$8.6 billion remaining on our prior authorization as of December 31st. Today we announced a \$25 billion increase in our stock repurchase authorization.

Turning now to the outlook.

We continue to face significant uncertainty as we manage through a number of cross currents in 2021.

We believe our business has benefited from two broad economic trends playing out during the pandemic. The first is the ongoing shift to online commerce. The second is the shift in consumer demand towards products and away from services. We believe these shifts provided a tailwind to our advertising business in the second half of 2020 given our strength in product verticals sold via online commerce and our lower exposure to service verticals like travel. Looking forward, a moderation or reversal in one or both of these trends could serve as a headwind to our advertising revenue growth.

At the same time, in the first half of 2021 we will be lapping a period of growth that was negatively impacted by reduced advertising demand during the early stages of the pandemic. As a result, we expect year-over-year growth rates in total revenue to remain stable or modestly accelerate sequentially in the first and second quarters of 2021. In the second half of the year we will lap periods of increasingly strong growth which will significantly pressure year-over-year growth rates.

We also expect to face more significant ad targeting headwinds in 2021. This includes the impact of platform changes, notably iOS14, as well as the evolving regulatory landscape. While the timing of the iOS14 changes remains uncertain, we would expect to see an impact beginning late in the first quarter.

There is also continuing uncertainty around the viability of transatlantic data transfers in light of recent European regulatory developments, and like other companies in our industry, we are closely monitoring the potential impact on our European operations as these developments progress.

Turning now to expenses.

We expect 2021 total expenses to be in the range of \$68-73 billion, unchanged from our prior outlook. This is driven by investments in technical and product talent as well as continued growth in infrastructure costs.

We continue to expect 2021 capital expenditures to be in the range of \$21-23 billion, driven by data centers, servers, network infrastructure and office facilities. Our outlook includes spend that was delayed from 2020 due to the impact of the pandemic on our construction efforts.

Turning now to tax. We continue to expect our full-year 2021 tax rate to be in the high-teens.

In closing, 2020 was a unique operating environment that introduced a number of unforeseen challenges. We've been pleased with our team's ability to adapt in order to maintain the reliability of our services, deliver new products and experiences, and support the millions of businesses who use our platforms to reach consumers.

With that, Mike, let's open up the call for questions.

Operator: We will now open the lines for a question and answer session. To ask a question, press star followed by the number one 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's speakers. Your first question comes from the line of Brian Nowak from Morgan Stanley.

Brian Nowak: Thank for taking my question; I have two. The first one for either Mark or Sheryl, I appreciate the color on commerce. I was curious as for any encouraging quantifiable signposts or learnings that you've seen so far in Instagram shopping that sort of give you confidence you're making progress in building out this opportunity?

And then the second one, Dave, in the -- appreciate the comment on the forward outlook and the outlook commentary. I guess the question is, you sort of talk about this shift to consumer expenditure toward products away from services and how that could potentially be a headwind in the back half as it reverses.

I think last quarter you mentioned you had 10 million advertisers. So maybe talk to us about sort of some of the segments of advertisers you think that you're missing?

And what initiatives do you have in place to sort of broaden the advertiser base to bring more services on the platform? Thanks.

Sheryl Sandberg: I can take the first. With Instagram shopping, we launched a new shop tab on Instagram in Q4, and this is built on other shopping efforts we've had. We see this as an overall part of our commerce effort. You know, we've always been, I think, a great place for people to discover new products and services.

But we are very interested in taking people all the way down that funnel from discovery to purchase, to finding products and services to checking out as well. And our shopping efforts are part of that. We're seeing nice uptick. It's still really early days.

But we think businesses are having a good experience and people are having a good experience. And as always, with our ad products and with our commerce products, we want to make sure we provide a great experience to the end user so that they can find the things they're looking for.

David Wehner: Brian, it's Dave. Yes, the data that we've looked at there really is that when you look at the data from the U.S. BEA, it basically showed that in Q3, while the services consumer spend was still down year-over-year, spending on goods actually surged to record levels, sort of the highest in like 15 years. We don't have the results for Q4, but we expect that sort of trend continued.

If you look at the balance of our of our business, it tends to skew more towards products relative to the overall GDP -- or the overall consumer spend in, for instance, the US. So we just think we're overall exposed a little bit more to products.

We continue to invest to improve our exposure in travel -- sorry, in service areas like travel. But our expectation would be in 2021, we'll continue to have a similar skew towards products as we've had in the past. But we'll continue to make investments to make our ad products more relevant for services as well.

Operator: Your next question comes from the line of Doug Anmuth from JPMorgan.

Douglas Anmuth: Great, thanks for taking the question. For Dave and Sheryl, we know you mentioned significant ad targeting headwinds. But has your view on IDFA changed at all over the past few months?

Just curious how you're thinking about Facebook's ability now to offset some of the impact just through things like limited log-in mode and new APIs and other conversion tools and data. And then if you could just talk a little bit more about how you're thinking about the impact across FAN and then the core products.

David Wehner: Doug, I'll take that. So I don't think our outlook has changed in any significant way on iOS 14. We continue to believe that will be a headwind in the ads business.

It's in our view, not just limited to IDFA, but broader than that is we're going to have to be providing a prompt asking people for permission to use third-party data to deliver personalized ads.

So that's going to be true whether you're using IDFA or not. And we do expect there to be high opt out rates related to that, and that's factored into our outlook. We expect that to roll out sometime -- we expect later in Q1.

But the timing is uncertain, and Apple hasn't given clarity on that at this point. And we do expect that will have increasing impact through the year as more users adopt iOS 14 and go through those permissions.

When you think about what the mitigations might be, obviously, there's going to be mitigation of the impact on us, to some extent, just because this is a platform-wide change and so it will impact everyone.

And so that's going to mitigate it to some extent. And in addition, over time, we hope to help businesses by providing more on-site conversion opportunities through initiatives like shops, and also click to messaging ads.

As it relates to, specifically, the audience network products, obviously, that's going to have a significant impact on audience network on iOS, as we have explained in the past. But it's -- but the broader impact given the size of that business is really to our -- to the core advertising business on iOS.

Operator: Your next question comes from the line of Eric Sheridan from UBS.

Eric Sheridan: Maybe two, if I can. Mark, just coming back to your comments, what do you see as some of the key investments either on the hardware side or the content and application side to unlock the opportunity based on what you recently saw with the success of Oculus in the holiday period, where there was a piece of hardware, obviously, that's sold through quite well.

And how do you think about aligning investments against the opportunity in the coming years? And then maybe -- I don't know if it's for Sheryl or Dave, but maybe I could just follow up a little bit on Doug's question.

When you think out to the language you're using about the back half of the year, is there any sense you can give us quantitatively about how to think about some of the tougher comps you'll see as we move through '21 versus identifying the degree of the severity of different outcomes from some of the headwinds.

Mark Zuckerberg: I can take the first one. So when we started working on virtual and augmented reality, we basically laid out a path where we knew that virtual reality would be practical to build first.

And we view that it's kind of all part of one continuous ecosystem for spatial, immersive, computing and presence. So, the key things that we're trying to do with VR now. I do believe that Quest 2 is the first mainstream virtual reality product that is doing quite well, and I'm really proud of what we've been able to do there.

The goal there is we keep on shipping content and titles and working with developers and shipping new capabilities to the device. Like last year, we shipped the ability to do -- now hand tracking, which no one expected to be possible yet, but the team working on that did some really great work. And it just made the device better and increased the value.

So we're continuing to work on new hardware as well. The new hardware will kind of fit the same platform. So the content that works on Quest 2 should be forward compatible. And so that way we're going to build one kind of larger installed base around the virtual reality headsets that we have.

And at the same time, we're building towards a future with some of this -- the fundamental technology investments that we're making to be able to provide augmented reality glasses that hopefully will be able to support a lot of the same

content in this ecosystem over time and take advantage of a lot of these foundational investments that we've made.

So this is -- this continues to be a long-term investment. I think it's very important both for the vision of what we want to do. Like I said in my script before -- earlier, some of the things that we're going to be able to build with VR and AR are the types of social experiences that I wanted to build since I was a kid, and I'm excited to be able to unlock that.

And I also think strategically, it's important for us to have a little more control of our own destiny in terms of the operating systems and platforms that all of our services operate on. So continue to be very focused on this and optimistic about what we're seeing.

David Wehner: Yes. Eric, it's Dave. Just coming back to your question. I think the context is we have this -- we've had a tremendously strong quarter Q4 of this year. A number of factors we talked about driving that. A couple are pandemic related which is just the shift to online commerce as well as the ongoing -- the shift to more spend on products versus services.

In Q4, we also saw strength with sort of our full range of advertisers. We have seen sort of small and medium-sized businesses come back and start getting strength in Q2 and Q3, or Q3 specifically. And then Q4, we also saw strength from some of our largest advertisers as well.

So as you look out in 2021, I think we're just going to be facing tougher comps in the back half of the year. Some of those things related to the pandemic have the potential to revert, whether it's more consumer expenditure shifting towards services away from products. So that will make it a little bit of a tougher comp. And then you layer on top of that headwinds to growth related to privacy-related headwinds.

The biggest factor there is iOS 14. So we certainly anticipate growth, but we're just looking at tougher comps as we hit the back half of the year, given really, most importantly, the strength that we saw this year. And then on top of that, the headwinds that we're seeing from some of the privacy changes.

Operator: Your next question comes from the line of Justin Post from Bank of America.

Justin Post: Great. I guess I'll ask about regulation. I know it's a tough topic. First, Mark, in your prepared remarks, you elevated a little bit competition with Apple. Is there anything going on with iOS 14 besides IDFA that maybe puts you in more direct competition with Apple?

And then secondly, obviously, the FTC filed their case since the last earnings call. Maybe just open forum. Any thoughts on that, that you're able to share.

Mark Zuckerberg: Well, in terms of the competition with Apple specifically, I laid out three or four product focus areas. And with the exception of the work that we're doing on communities, which I think is quite separate from the work that they do, the other three areas, I think, are going to have very significant competitive overlap with Apple. In messaging, certainly, iMessage is the most popular service in the U.S.

I think because of the fact that they pre-install it and give their app several advantages that other apps don't have. In commerce and supporting small businesses, I think there, you have some of the iOS 14 changes that we think are going to be very problematic, especially for small businesses.

And then longer term, as we move towards building the next computing platform, I think we would expect to see them as more of a competitor there as well. So I do think that this is sort of shaping up that -- we face many competitors, right. There are a lot of competitors in the core social app work that we do.

Operator: This is the operator. I apologize but there will be a slight delay in today's conference. Please hold and the conference will resume shortly. Thank you for your patience.

(Technical Difficulties)

Speakers, we are now connected.

Mark Zuckerberg: Was there another question on that last one that I was supposed to answer?

David Wehner: Well, there's a question about the FTC. All right. Are we on now through this line?

Operator: Yes, you are connected.

David Wehner: OK.

Mark Zuckerberg: All right. So where did I lose you?

David Wehner: I think you had covered the question of the dynamics related to the competitive landscape, and then there was a follow-on question around the FTC case and any thoughts that we have on that. I don't think we have anything we necessarily are commenting on at this point.

Mark Zuckerberg: Yes. Nothing on the case. I mean on regulation overall because I think some of the question was focused on that.

The point that I would highlight is I actually think it would be very helpful to us, and the Internet sector overall, for there to be clearer rules and expectations on some of these social issues around how content should be handled, or how elections should be handled around what privacy norms governments want to see in place because these questions all have trade-offs, right? All the content and elections content and elections questions have trade-offs between giving people free expression and a voice but some -- there's trade-offs against safety and privacy and other social equities, they're all very important.

And it's I think very difficult for a private company to balance those, and I think it would be much better to have just a clearer guidance and clearer rules for the Internet. So that's going to be something that we continue to advocate for.

Operator: Your next question comes from the line of Ross Sandler from Barclays.

Ross Sandler: A question about the price volume metrics -- can you hear me?

David Wehner: Yes. I can hear you now.

Ross Sandler: Yes. A question about the price versus volume metrics, Dave, that you just mentioned. This is the first quarter in a long time that price, I think, was up year-on-year. I know there's a lot of factors that go into that.

But you also mentioned that you're seeing now strong traction from DR advertisers around the stories format. So maybe just a little bit more color on where we are in the stories versus feed price dynamic? And what kinds of DR advertisers are seeing the most traction around these stories ads.

David Wehner: Yes, sure, Ross. So I mean, as you know, with the auction dynamic, the growth in pricing is -- does really depend on impression growth. And we saw impression growth slowed this quarter to 25 percent from the Q3 rate of 35 percent.

And some of that is just due to lapping product optimizations on Instagram during Q4 of '19 as well as just the normalization of engagement trends on Facebook. And so we would expect that sort of overall story to continue into Q1 with those trends. And then we're also continuing to make iterative improvements that enhance the performance and benefit pricing over time.

And the one example that we give there is Instagram Stories that, as you know, it's been an area we've been focused on to try and make DR performance through better ads interactivity work better on Stories, and we've been seeing some good progress there.

So we called that out as well as being a driver of price improvement. There's still a gap with Stories ads and feed ads, but we've been pleased with the progress we've been making on that front.

Operator: Your next question comes from the line of Colin Sebastian from Baird.

Colin Sebastian: Great. Two quick ones for me. I guess, given the ongoing efforts in private messaging, I'm curious, ultimately, what will differentiate Messenger from WhatsApp other than branding or geography if there's an inevitable consolidation of functionality there.

And then secondly, on Reels, I know it's still early, but any update on performance or uptake as well as the road map for monetization, I think, would be helpful.

David Wehner: Mark, do you want to take this?

Mark Zuckerberg: Yes, I can take the first one. I mean the biggest connection for -- the biggest difference between Messenger and WhatsApp is, obviously, the connection to Facebook and the kind of same identity and graph that you use on Facebook comes with you to Messenger.

So even if you can send messages across the different apps and there's more interoperability, and we bring the same world-class privacy features to both. I think that will still make the apps feel fairly distinct.

I also think the kind of aesthetic and focus of the apps on how much different functionality they include will vary. I think WhatsApp has always had -- we've always focused a lot on making it a very utilitarian experience and place more of a premium on simplicity there.

So we'll continue adding new functionality, but we're more focused on keeping that minimal. Whereas in Messenger, we have a lot more tools and features for expression. And I would expect that we'll continue adding more there as well.

Sheryl Sandberg: On the second, with Reels, we're really pleased with the early data on consumption, and we have a bunch of work ahead of us to make it easier for people to create and discover content. We've now rolled out the product into over 50 countries.

In monetization of it, we've launched branded content tags in Reels, so that helps creators share the content and monetize. We launched shopping in Reels. And we've said that we will launch ads.

The timing is to be determined. And we're going to follow the same pattern we followed on other things like Stories. We launch a consumer product. We make sure there's product market fit, and people are using it. Then we launch an ad product.

And we make sure that it's beneficial for consumers. And as David answered in I think the last question, we work very diligently quarter-by-quarter on the basis point improvements that help us scale a product.

So we will do things to make it easier for businesses to create the right ad format. We will do things to make those ads get to the person who might be looking for that product or service.

Operator: Your next question comes from the line of Youssef Squali from Truist Securities.

Youssef Squali: Two questions, please. Mark, I want to go back to the first theme that you discussed of communities and how you're looking to potentially deemphasize civic and political groups.

How important -- or how large is civic and political contents on the site. Is there a way to quantify it or to quantify the engagement with it to see if this is one of the headwinds that you guys talk about in terms of potentially emerging in 2021?

And second, on the regulatory headwinds, there is just increasing talk of about Section 220 protection. I know it's a thorny subject.

But from where you stand, how do you see Facebook -- and not just really Facebook, but other social media platforms dealing with it. And if it was either to be narrowed or even completely eliminated?

Mark Zuckerberg: Sure. I can probably take both of those. Yes, I don't know if we have any stats to share on the size of civic and political content, but it's a pretty small minority of the content, right. And it's -- and all the feedback that we have from our communities suggest that the vast majority of people would like it to stay that way.

And I think there has been this trend, I think, across society where a lot of things have become politicized and politics has kind of had a way of creeping into everything. And I think a lot of the work that we're -- a lot of the feedback that we see from our communities that people don't want that in their experience.

And they come to our services to connect with friends and family, to connect to communities that they care about. And I think that we can potentially do a better job of those core jobs that we have and do a better job of helping to bring people together and helping to promote healthier communities if we can reduce the amount of politics on our services.

Now I mean it's -- we'll have to balance this carefully because we have a deep commitment to free expression. So I believe that if people want to be able to discuss this stuff or join groups there, they should certainly be able to do that. But I just don't think that it's serving the community particularly well to be recommending that content right now.

But one thing to mention just because you were asking about the headwinds and all that is, I don't think that this is a factor in any of that. And Wehner can jump in if there's any more that you want to add on that.

But I don't think that, that's what he had in mind in any way there. Wehner, I'll skip a beat for you to jump in if you want before going to the next question.

David Wehner: Yes. No, I was just going to say that exact thing, Youssef. This is not something that's factoring into our outlook. It's not a headwind that is a factor in our 2021 outlook.

And certainly, on the ads front as well, political is extremely small. It's low single-digit revenue even in an active political quarter like we had. So no, it's not factoring in on either the ad side or the engagement side in our outlook.

Mark Zuckerberg: Yes. And now going to your 230 question, I do think -- and I testified this -- about this in Congress. I do think that Congress should update Section 230 to make sure that it's working the way that people intend, right. And it's after, I think, being in place for almost 25 years.

And the Section 230 has been very important. It's helped give rise to the Internet as we know it today. And it's given Internet platforms tools to be able to balance free expression and safety.

And I think it's also gone pretty far in terms of helping to ensure that values like free expression are built into the Internet's DNA. So I think that any changes should be thought through very carefully. And should be thought through not just from the perspective of what a larger company like Facebook or Google or Twitter could handle in terms of updating their content moderation policies, but also from the perspective of making sure that new companies can continue to emerge. I think that's very important as well.

So we've supported changes in this for a while. Back in 2018, we supported a change to prevent sex trafficking. And we'll support similar efforts to tackle harms like child exploitation imagery and material and opioids.

And we'll also support any push to make content moderation systems more transparent. The details on all this, of course, matter, but we hope to be able to work with the new Congress on this.

Operator: Your last question comes from the line of John Blackledge from Cowen.

John Blackledge: Great. Two questions. Mark, on community, could you just provide further details on layering more services for Facebook groups? And expectation for uptake of those new services?

And could community evolve as a meaningful monetization driver in the coming years? And then on IDFA, maybe for Dave or Sheryl, how do you think advertisers are prepared for the changes? And will the long-tail advertisers be more impacted than the larger, more sophisticated advertisers?

Mark Zuckerberg: I can speak to the first point. First, for the business -- and I don't think we look at communities separately from friends and family. There are both different types of content that show up in news feed that people interact with.

But my guess is that it's probably already a pretty meaningful driver of the business and the value that people get from the services today. So absolutely, I think as this continues to grow, it should be in the future.

The big trend that we're looking at now, and that I tried to call out in my remarks earlier, is that right now, there's a spectrum of different kinds of groups and communities on Facebook. Everything from meme groups that people find very entertaining and fun, to groups that people really turn to for support when they have kind of serious issues in their lives.

And I think that right now, though, most of these communities, they have this backbone of -- there's a feed, there are ways to message people. But when I think about the physical communities that I'm a part of, in my life, they often have more of an institutional structure.

There are subcommunities. There are people who -- it's their full-time job to basically help people engage and -- basically help people navigate them. I'm thinking about things like the synagogue that I'm a member of. I mean there are people there whose job it is to help engage the congregation and help them get basically the most out of everything that the institution has to offer. And that's a very important kind of community organization. And I would love for more institutions like that to be able to organize and build community more effectively online.

So there are lots of just different tools that I think that -- if we provide -- spanning messaging, spanning video chat, these organizations own websites and other things that they do, that if we can help in a lot of those areas, then we can make it so that groups on Facebook are not just a feed and a place where you post some content and maybe engage on a post, but that we can really help more organizations build up community institutions like that. And I think that, that could be a very big contribution and something that I'm excited about taking on.

Sheryl Sandberg: To your second question, we think it's a really important question and one that we take very seriously. So small businesses are very reliant on personalized ads, the ability to use data in a very privacy safe way, to get the customers who are interested in their products and services. And that makes sense.

Big businesses, we can buy an ad to the whole country. We can buy an ad to a whole region. Small businesses can't. They have to find the precise audiences they want.

And I think one of the mainstays of our business is we've enabled that targeting in a very privacy safe way without giving information without permission to advertisers.

And what's happening with IDFA is that small businesses are really concerned because they're worried that they're not going to be able to buy effective advertising. If all personalized ads went away, small businesses would see a 60 percent cut in website sales.

Now we don't think Apple's contemplating going that far that quickly, but that is the general direction of what would happen. And you can see that would be very detrimental to their business.

It's also very detrimental to economic growth because so much of our job growth comes from small businesses. I think it's worth noting, it's not just about advertisers. Some of these changes also impact developers and other forms of businesses.

We are starting to hear from creators and developers who are worried that some of their free services will have to start charging or shut down, force them into subscriptions or other in payments for revenue. Now not all small businesses are aware of these challenges, but we are hearing from more and more of them, so we're very concerned.

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

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for joining us. You may now disconnect your lines.