

## Q3 2019 Earnings Call

### Company Participants

- Dave Wehner, Chief Financial Officer
- Deborah Crawford, Vice President, Investor Relations
- Mark Zuckerberg, Chief Executive Officer
- Sheryl Sandberg, Chief Operating Officer

### Other Participants

- Brian Nowak, Analyst, Morgan Stanley
- Colin Sebastian, Analyst, Baird
- Doug Anmuth, Analyst, JPMorgan
- Eric Sheridan, Analyst, UBS
- Heather Bellini, Analyst, Goldman Sachs
- Justin Post, Analyst, Bank of America Merrill Lynch
- Lloyd Walmsley, Analyst, Deutsche Bank
- Mark Mahaney, Analyst, RBC Capital Markets
- Michael Nathanson, Analyst, Moffett Nathanson
- Ross Sandler, Analyst, Barclays
- Youssef Squali, Analyst, SunTrust

### Presentation

#### Operator

Good afternoon. My name is Mike and I will be your conference operator today. At this time, I would like to welcome everyone to the Facebook Third Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator instructions) This call will be recorded. Thank you very much. Ms. Deborah Crawford, Facebook's Vice President of Investor Relations, you may begin.

#### Deborah Crawford {BIO 5934723 <GO>}

Thank you. Good afternoon and welcome to Facebook's third quarter 2019 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** {BIO 15103277 <GO>}

All right. Thanks, Deborah. Thank you all for joining us today. Before we get started, I want to talk about the announcement we just shared that Sue Desmond-Hellmann is going to be leaving our Board to focus on her health and other commitments. Sue has been a wonderful and thoughtful voice on our Board for six years and I'm deeply personally grateful for everything that she has done for this Company. This was a good quarter for our community and our business. There are now around 2.8 billion people using Facebook, Instagram, WhatsApp, or Messenger each month and around 2.2 billion people using at least one of our services daily. The Facebook app had a particularly strong quarter, including in the US and Canada. We also recently released now that we estimate that more than 140 million businesses, mostly small businesses, are using our services each month to grow, create jobs, and become social hubs in their communities.

This has been a busy quarter on a lot of fronts. We launched a number of new exciting products like Facebook Dating in the US, which is doing quite well; Threads for Instagram, our camera first experience to share with your close friends; Facebook News, our dedicated product for news that we built in partnership with news publishers; and we introduced Horizon, a new social experience for VR. We also released hand-tracking technology for Oculus and Oculus Link. So your Quest is basically now a Rift too. We're making progress building out the private social platform across WhatsApp, Messenger and Instagram Direct, and we have multiple exciting initiatives around commerce and payments that we're moving forward from marketplace to Instagram Shopping to payments in WhatsApp and continuing our discussion on Libra.

This has also been a busy quarter on the policy and social issues front. We formally entered into a settlement with the FTC to make structural changes and build a rigorous privacy program that will set a new standard for our industry. We're about a year out now from the 2020 elections and we just announced that the systems we've built are so advanced that we proactively identified and removed multiple foreign interference campaigns coming from Russia and Iran. And we found ourselves in the middle of the debate about what political speech is acceptable in the upcoming campaigns.

But today I want to focus on talking about principles because from a business perspective it might be easier for us to choose a different path than the one that we're taking. So I want to make sure that everyone is clear about what we stand for and why we're making some of the decisions that we're making. Now I gave a speech a couple of weeks ago about the importance of standing for voice and free

expression. I believe strongly and I believe that history supports that free expression has been important for driving progress in building more inclusive societies around the world. And at times of social tension, there's often been an urge to pull back on free expression and that we will be best served over the long term by resisting this urge and defending free expression.

Today is certainly a historical moment of social tension and I view an important role of our company as defending free expression. Now this has never been absolute and of course we take our responsibility to prevent harm very seriously too. I think we invest more in getting harmful content off our services than any other company in the world. Those who follow us closely know that we have more than 35,000 people working on safety and security, and that our budget for this work is billions of dollars a year, more than the whole revenue of our company at the time of our IPO earlier this decade. And we're going to keep on investing more here.

But while we work hard to remove content that can cause real danger, I think we also need to be careful about adopting more and more rules that restrict the way that people can speak and what they can say. Right now the content debate is about political ads, should we block political ads with false statements or should we block all political ads. Google, YouTube and most Internet platforms run these same ads. Most cable networks run these same ads and of course national broadcasters are required by law to run them by FCC regulations. And I think that there are good reasons for this. In a democracy, I don't think it's right for private companies to censor politicians or the news. And although I've considered whether we should not carry these ads in the past and I'll continue to do so, on balance so far I've thought that we should continue. Ads can be an important part of voice, especially for candidates and advocacy groups that the media might not otherwise cover, so that they can get their message into debates. And it's hard to define where to draw the line. Would we really want to block ads for important political issues like climate change or women's empowerment. Now instead I believe that the better approach is to work to increase transparency. Ads on Facebook are already more transparent than anywhere else. We have a political ads archive so anyone can scrutinize every ad that's run. You can see every message, who saw it, how much was spent, and that's something that no TV or print media does.

Now since this is an earnings call, I want to talk about the business impact of all of this. Some people accuse us of allowing the speech because they think that all we care about is making money and that's wrong. I can assure you that from a business perspective the controversy that this creates far outweighs the very small percent of our business that these political ads make up. We estimate that these ads from politicians will be less than 0.5% of our revenue next year. That's not why we're doing this. To put this in perspective, the FTC finds that these same critics said, wouldn't it be enough to change our incentives was more than 10X bigger than this.

So the reality is that we believe deeply that political speech is important and that's what's driving this. Now other people say that this policy is part of a broader pattern of us building a system that incentivizes inflammatory content to fuel our business. And again, to the contrary, I think that we've done more than any of the other major

Internet platforms to try to build positive incentives into our systems. We don't let any of our newsfeed or Instagram feed teams set goals around increasing time spent on our services. We rank feeds to encourage meaningful social interactions, helping people connect with friends, family and their communities.

We have real people come in and tell us what content they saw that was most meaningful to them and support valuable discussions and then we build systems to try to surface that kind of content. We've taken many steps over the years to fight clickbait and polarization, and now we're even testing removing like counts in Instagram and Facebook. And we do this because we know that if we help people have meaningful interactions they'll grow -- that they'll find our services more valuable and that's the key to building something sustainable and growing over time.

Now last year, you'd probably remember that we made a series of changes that emphasized friends and family and reduced time spent on our services. The one change removed 50 million hours of viral video watching a day and we did this knowing that it would mean that people spend less time on our apps, which is not what you do if you're just prioritizing engagement over everything else. So I take getting these incentives right very seriously and we're willing to make huge sacrifices in the short term to do what we think is right and we'll be better over time.

Now finally, some people say that this is just all a cynical political calculation and that we're acting in a way that we don't really believe because we're just trying to appease conservative. That's wrong too. Now we face a lot of criticism from both progressives and conservatives. And frankly if our goal, we're trying to make either side happy, then we're not doing a very good job because I'm pretty sure everyone is frustrated with us. Core values on voice and free expression are not partisans, but unfortunately in our current environment a lot of people look at every decision through the lens of whether it's going to help or hurt the candidate they want in winning their next election.

Now a lot of people have told us, you've got to pick a side, or else both sides are just going to cause a lot of problems for you and sadly from a practical perspective, they may be right, but we can't make decisions that way. So over the next year of campaigns, we're going to be at the center of the debate, anytime there's content or policies on any of our services that people believe could advantage or disadvantage their side. This may lead to more investigations and the candidates are going to criticize us. I expect that this is going to be a very tough year. We try to do what we think is right but we're not going to get everything right. This is complex stuff and anyone who says that the answers are simple hasn't thought long enough about all the nuances and downstream challenges.

I guess that some people are going to disagree with our decision. I guess that some people are going to think that these decisions may have a negative impact on things that they really care about. But I don't think anyone can say that we are not doing what we believe or that we haven't thought hard about these issues. I could be wrong, but my experience running this company so far has been that if we do what

we believe is right, even when it's unpopular for years at a time, then eventually it has worked out best for our community and for our business too. And there's a lot at stake here. We were at crossroads, not only in our own country, but in the future of the global Internet as well. China is building its own Internet and media ecosystem that's focused on very different values.

And as these systems compete, the question of which nation's values will determine what speech has allowed for decades to come really puts into perspective the issues that we face today because while we may disagree on exactly where to draw the line on specific issues, we at least can disagree and that's what free expression is about. Voice and expression have been important for progress throughout history, they have been important in the fight for democracy worldwide. And I believe that voice and expression are an important part of the path forward today and that's why our company will continue standing for these principles.

As always, I'm grateful for all of your support in everything that we do and that's especially true today. In addition to these challenges, there are a lot of great things that are going on that I am incredibly proud of and excited about and I'm glad that our community and business trends continue heading in a good direction. I'm happy to talk about any of these things in the Q&A and now here is Sheryl to talk more about our business.

### **Sheryl Sandberg** {BIO 15339456 <GO>}

Thanks, Mark, and hi everyone. It was a strong quarter for our business. Ad revenue grew 28% year-over-year and we saw strong performance in all regions and on both Facebook and Instagram. Mobile ad revenue was \$16.4 billion, contributing approximately 94% of total ad revenue. We know we have a very important responsibility to keep people safe and continue innovating to help businesses of all sizes grow. We're working hard to demonstrate our commitment to the billions of people and the 140 million businesses who use our platforms every month.

I want to start by talking about some of the protections we're putting in place to keep people safe. As Mark said, the 2020 elections are only a year away. We're continuing to invest in people and technology so that we can disrupt networks of bad actors, find and remove that content and stop fake accounts before people see them. We're also making political advertising on Facebook more transparent than anywhere else. In 2018, we started requiring ads about social issues, elections or politics to get authorized before running. And this quarter we strengthen those requirements to ask for even more information. Helping people understand who is trying to influence their vote without becoming arbiters of political truth ourselves is critical to empowering people and keeping them safe.

We're also holding ourselves to a higher standard when it comes to protecting people from discrimination on Facebook. Earlier this year we reached an important settlement with the National Fair Housing Alliance, the ACLU, the Communication Workers of America and others to restrict targeting options for housing, employment and credit ads. Now advertisers in these areas are required to use a new buying

process and by the end of the year people will be able to view all current housing ads in the United States.

While these changes could have a small negative impact on our business in the short term, we believe they are the right thing to do for people and our business over the long term. At the same time, we're continuing to innovate to grow our business and help advertisers grow theirs. We did that by improving our ads products and creating new formats to help advertisers more easily reach their current and future customers.

From the biggest brands in the world to the local barber, we are committed to leveling the playing field for businesses of all sizes. We give businesses free tools that previously only the largest companies could access. But we know this is not enough. We also need to ensure that small businesses have the digital skills to use those tools effectively.

With the holiday shopping season approaching, we launched a series of holiday boot camp training sessions in 17 of our offices around the world from New York to Philippines. We also simplified business managers, our tool for managing campaigns to help businesses more easily create ads that align with their goals. We are continually making these basis point improvements to help advertisers save time and money and build their business.

We're also focused on developing products to help businesses reach people where they are. Stories are a great example and we're continuing to see fast adoption across Facebook, Messenger, Instagram and WhatsApp. To make it easier for more businesses to create ads for the stories format, we recently launched customizable templates for Facebook, Instagram and Messenger. After uploading existing photos and videos, advertisers can choose from different layouts, color and text options. This helps businesses more easily create more engaging stories.

Messaging is one of the fastest growing areas for online communication and especially between businesses and people. We've seen businesses use Messenger to reach customers, generate new leads and even sell cars. For example, French automaker Renault used a combination of Instagram stories and click to Messenger ads to drive sales of a limited edition vehicle, the Captur Tokyo. Facebook was their only advertising channel and over the span of 30 days, they sold 100 cars, 20 directly through Messenger. This quarter we added a click to Messenger feature in stories so businesses can grab some of the attention in stories and then continue the conversation.

We also continue to build new formats that enable brands to interact with people in fun and engaging ways and make commerce more convenient. Earlier this year we launched polling stickers for ads and Instagram stories. In this quarter, we introduced our next wave of interactive advertising to help build even stronger connections between people and businesses.

According to eMarketer, 63% of Internet users surveyed in the US say they've tried an augmented reality experience created by a brand. To help advertisers experiment with this, we launched a small beta test this quarter. As part of the test, we make up an Italian cosmetics brand, used their ads to give people an easy way to try on different shades of lipstick and they saw a 27% lift in purchases.

While it is still very early days, we are making it easier for people to browse, discover, buy and sell across our platform. Take Facebook Marketplace as an example. We launched the commerce platform three years ago this month and we're now seeing millions of interactions between buyers and sellers every day. From furniture to used vehicles, people have an opportunity to discover the things they love and advertisers in nearly 100 regions have an opportunity to reach people where they shop.

I want to close by saying how grateful I am to our partners around the world that continue to give us valuable feedback and how we can better deliver on our responsibilities and help them grow. I also want to thank the Facebook teams who are deeply committed to making progress on the major social issues facing the Internet and our Company and driving growth for businesses. Thanks everyone and here is Dave.

### **Dave Wehner** {BIO 2419389 <GO>}

Thanks, Sheryl, and good afternoon everyone. Let me begin with our community metrics. We were pleased with the growth of the Facebook Community this quarter, daily active users reached 1.62 billion, up 9% compared to last year led by growth in India, Indonesia and the Philippines. This represents approximately 66% of the 2.45 billion monthly active users in September.

MAUs grew 8% or 178 million compared to last year. We're pleased with the growth trends in all regions, including the US and Canada. In terms of our Family metrics, we continue to grow and estimate that on average around 2.2 billion people use at least one of our apps on a daily basis in September and around 2.8 billion were active on a monthly basis.

As a reminder, the Family metrics are best estimate of our de-duplicated audience across Facebook, Instagram, Messenger and WhatsApp. We believe that these numbers better reflect the size of our community and the fact that many people are using more than one of our services. Over time, we anticipate Family metrics will play the primary role in our disclosures and how we talk about the Company.

Turning now to the financials. All comparisons are on a year-over-year basis unless otherwise noted. Q3, total revenue was \$17.7 billion, up 29% or 31% on a constant currency basis. As expected, we saw a deceleration in our constant currency revenue growth versus the second quarter. Had foreign exchange rates remained constant with the third quarter of 2018, total revenue would have been approximately \$297 million higher.

Q3 total ad revenue was \$17.4 billion, up 28% or 31% on a constant currency basis. In terms of regional ad revenue growth, APAC and Rest of World were strongest and grew 35% and 34%, respectively. APAC got more of a revenue lift from our recent product optimizations while Rest of World benefited from favorable macroeconomic trends compared to the weaker environment in Q3 of last year. North America and Europe grew 27% and 24%, respectively.

In Q3, the number of ad impressions served across our services increased 37% and the average price per ad decreased 6%. Impression growth was primarily driven by ads on Facebook News Feed, Instagram Stories and Instagram feed. The year-over-year decline in average price per ad was primarily driven by the ongoing mix shift towards geographies and Stories ads which monetize at lower rate. Payments and other fees revenue was \$269 million, up 43%. This year-over-year growth was driven primarily by sales of new products, notably, Oculus Quest.

Turning now to expenses, total expenses were \$10.5 billion, up 32%. We ended Q3 with approximately 43,000 full-time employees, up 28%. Operating income was \$7.2 billion, representing a 41% operating margin. Our Q3 tax rate was 17%. Net income was \$6.1 billion or \$2.12 per share. Capital expenditures were \$3.7 billion driven by ongoing investments in data centers, servers, network infrastructure and office facilities. We generated \$5.6 billion in free cash flow and ended the quarter with approximately \$52.3 billion in cash and investments. In Q3, we bought back approximately \$1.2 billion of our Class A common stock.

Turning now to the revenue outlook. As I indicated on our second quarter call, we continue to expect a more pronounced deceleration of our revenue growth rate in Q4. We expect our Q4 reported revenue growth rate will decelerate by mid to high single-digit percentage compared to our Q3 rate. This deceleration is largely driven by the lapping of several successful product optimizations in Q4 of last year, as well as ad targeting related headwinds. Since these factors are largely unique to Q4, we would expect our revenue growth deceleration in 2020 versus the Q4 rate to be much less pronounced.

Turning now to the 2019 expense outlook. Due to the FTC settlement announced earlier this year, we are providing our expense outlook on a dollar basis for additional clarity. We anticipate 2019 total expenses will be approximately \$46 billion to \$48 billion. As a reminder, this range includes \$5 billion in accruals we recorded in the first half of 2019 related to our FTC settlement. We expect 2019 capital expenditures will be approximately \$16 billion compared to our prior estimate of \$16 billion to \$18 billion. Our capital expenditures are driven primarily by our ongoing investments in data centers, servers and network infrastructure.

Turning now to tax. We expect our Q4 tax rate will be in the range of 18% to 20%. I'd also like to share our initial outlook on 2020 expenses. We anticipate that our 2020 total expenses will be in the range of \$54 billion to \$59 billion. Our plan to re-accelerate headcount growth as well as growth in non-headcount related expenses like marketing factors into this guidance. We expect that 2020 capital expenditures will be approximately \$17 billion to \$19 billion driven by investments in data centers,



servers, office facilities and our network infrastructure. Lastly, we anticipate our 2020 effective tax rate will be in the range of 18% to 20%. In summary, Q3 was a strong quarter for Facebook. We are pleased with the growth of our community and continued momentum in our ads business. At the same time, we continue to make investments in important areas like privacy, safety and innovation. With that, operator, let's open up the call for questions.

## Questions And Answers

### Operator

We will now open the lines for a question-and-answer session. (Operator Instructions) Your first question comes from the line of Doug Anmuth from JPMorgan.

### Q - Doug Anmuth

Thanks for taking the question. First off, Dave, can you just help us understand a little bit more on the 4Q on the revenue decel, just some of the product improvements from last year that you're lapping. And then also just how you're thinking about the ad targeting headwinds considering that they didn't seem to show up in the 3Q numbers that much. And then, Mark, can you just talk about Instagram Shopping. How that's ramping and how you're thinking about expanding that initiative as you're going deeper into 4Q here. Thanks.

### A - Dave Wehner {BIO 2419389 <GO>}

Hey, Doug, it's Dave. Yeah, on the Q4 outlook, we are lapping a few different product optimizations. We made a couple of those that I would cite as optimizations and how the ad auction operates, which can have an impact and also an increase in ad load on IG feed and stories. And so, as I noted, these are factors that are largely Q4 related. And given that we would expect that 2020 revenue deceleration to much less pronounced.

And then in addition, in Q4, and over the longer term, we do continue to expect to face ad targeting related headwinds and uncertainties. And I just go back to the three factors that I cited in the past that the regulatory landscape is continuing to evolve. So for example, when GDPR came into effect, we saw a number of people who opted out on allowing us to use context from the apps and websites they visited for ad targeting.

And then the second factor is just we're seeing proposed changes from the mobile platforms that are more oriented towards privacy which could affect targeting and measurement and make that more difficult. And then finally, we are rolling out our own product changes such as the recent launch of OSA that's our user control on what data stored on Facebook activity. So I'd say those three factors still factor in. And when it comes to this, I'd say the majority of the potential signal loss is still in front of us rather than behind us. So I think those headwinds are still real and out there and that factors into our outlook as well.

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**A - Sheryl Sandberg** {BIO 15339456 <GO>}

I'll take the Instagram Shopping question. We think there is a big opportunity over the long run here because 90% -- more than 90% of Instagram users are following a business. But on the shopping product itself, it is still very early days and we're working to improve the product and it's quite small. We started testing in Q3 shopping ads, the idea that shoppers can tap on ad, see a product description page and can purchase from the business' mobile site.

Again, we think interesting product, but very nascent. Our overall commerce efforts go across not just Instagram but Facebook and all of our properties, and our goal is to make it more convenient and accessible and secure for people and business to browse, discover, buy and sell. I think we have been and continue to be a great place for people to browse and discover. That continues to drive the great, great majority of our business and well for the foreseeable future. But as we can help people reduce friction and close that loop, we think that's a good opportunity for people and for our business.

**Operator**

Your next question comes from the line of Justin Post from Bank of America Merrill Lynch.

**Q - Justin Post** {BIO 3469195 <GO>}

Great, thank you. Maybe one for Mark and one for Dave. First on Watch, with all the OTT launches, it's kind of interesting. Can you talk about your usage of the Watch tab and what your overall professional content strategy is and whether it could start contributing revenues going forward. And then Dave, you mentioned the headcount growth accelerating. Could you give us some of the areas where you'll be adding headcount next year. Thank you.

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

I'm happy to talk about Watch for a little bit. I don't think we have any new status to share on this, but I mean overall we rolled out the tab for -- almost the first year we were really tuning it just to make sure that it would be retentive and very valuable for people. So they are in general -- the way we think about this stuff is, we try not to put something in front of a lot of people unless we're confident that they're going to find it useful and want to come back and use it multiple times and we can put a lot of things in front of people not to try it once, but we want to wait until things are kind of retentive and useful. So we got to there on Watch, it's growing well and that is -- so we're kind of still now focused on continuing to make it better and continuing to grow it.

The premium content part of it, yeah, I think the right way to think about this is almost as marketing to help people try out the tab for the first time. There are some good tent pole pieces of content that people really love that they come and they check out the product to experience that and then they stay for a lot of the other

valuable content that's in there and that might not be talked about as much in the news. So, that's I think the right way to think about that.

**A - Dave Wehner** {BIO 2419389 <GO>}

Hey, Justin, it's Dave. On the 2020 expense outlook, that includes headcount growth and also other expense growth sort of around infrastructure is a big factor as well. We're seeing that large CapEx build over the last several years flowing through depreciation and cost of revenue. So that's a driver of the the growth as well. We are planning to reaccelerate or accelerate hiring in 2020 and that's really going to be focused on the important priorities of the Company. So that includes our privacy, safety and security investments. So we are investing a lot in privacy related to building the products and also working on complying with the FTC settlement.

And then we're continuing to invest heavily in our innovation investments. That includes building products around Facebook and Instagram and continuing to improve those but also in new developing areas like AR/VR. So those are big factors in growth. And then we are planning on growing non-headcount related expenses as well like marketing and ultimately that will depend on how the ROI of those investments play out over time.

**Operator**

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

**Q - Eric Sheridan** {BIO 22465717 <GO>}

Thanks for taking the question. Maybe two, if I can. You gave us a little bit of color on Asia and Rest of World and why those had accelerated. Any additional color you could give on sort of the US and Europe or things you saw in the quarter that might have impacted the growth rates in those regions. And going to the Q4 guide, is there any color you can give us on how different regions of the world might be impacted against the mid to high single-digit deceleration of the levels of Q3 just so we have a better understanding of where you might be seeing some of those tougher comps or product optimizations play out on a global scale. Thanks so much.

**A - Dave Wehner** {BIO 2419389 <GO>}

Thanks, Eric. We're not breaking out specific regional impact, but let me give you some color around the acceleration in areas like Rest of World and APAC. APAC benefited from some of the product optimizations we did in the quarter. One thing that I would cite there, it's just how we manage ad load and balance some of our internal promotion units and sort of use it as internal house spend and the nature of the changes that we made in that had a more pronounced impact in some of the lower ARPU countries and unlocked more impression growth in those markets. So that was one of the factors. And then Brazil was particularly weak last Q3. So that had a good compare on a macroeconomic basis. In terms of the Q4 guide, not anything I would say specifically there. In the US, we will have a shorter holiday season, it's hard to know how that's going to play into it just given the late arrival of Thanksgiving, but I think overall the product optimizations that we're comping

against in Q4 were global changes. So I think we're going to see the deceleration impact all regions.

## Operator

Your next question comes from the line of Brian Nowak from Morgan Stanley.

### Q - Brian Nowak {BIO 16819013 <GO>}

Thanks for taking my question. I have two. The first one -- Mark, you mentioned Facebook app in particular had a strong quarter in the US and Canada. We can see it in the DAU numbers. We would be curious to hear about any specific products or changes or types of behavior you're seeing that really is driving the stronger engagement on Big Blue. And the second one, you have so many monetization I guess call them almost products to come. You talked about commerce and IGTV and Stories and Discover. Just as we sort of think about the timing of these, which one or two of those are you sort of most excited about to drive the business into 2020? Thanks.

### A - Mark Zuckerberg {BIO 15103277 <GO>}

Yeah, I can take the first one on the Facebook app. It's a bunch of different places in which I think we made improvements. I would say globally especially outside the US, we saw good improvements around -- engagement around video. In the US, I think it was less video and more core feed engagement. So it's a bunch of different factors and I think we're seeing good engagement from a bunch of cohorts in the US, which is good. But of course we are highly penetrated in the US and Canada. So we would expect that to bounce around. So I think we saw great growth this quarter. We are quite penetrated.

In terms of monetization opportunities, I can speak to that and Mark can add color if you would like. Obviously -- and Sheryl would like to add color as well. So, Stories is obviously one of the big growing areas for us and continues to be a big driver. We're also seeing opportunities around Instagram Explore going into 2020. We're now monetizing with that product and more advertisers are buying from it and then Sheryl is going to jump in and I think give some additional color.

### A - Sheryl Sandberg {BIO 15339456 <GO>}

Yeah, I think in terms of our core advertising products and growth, it's worth really remembering that our core feed products for Facebook and Instagram are growing nicely and well. And we see a lot of opportunity to continue that growth. Definitely, Stories is a big part of the success. We've had I think a lot of success moving advertisers to where people already are. That's what happened with mobile ads. People weren't really doing mobile ads and we helped them get there. I think we've taken our experience on how to help advertisers migrate to the right places and been able to do that even more quickly in new formats like Stories.

So of our more than 7 million advertisers, we already have 3 million advertising across Facebook, Instagram and Messenger Stories. And I think that's because we

learned that we have to do a lot to help them move. So for example, advertisers can now buy Stories across Facebook, Instagram and Messenger all at once. We had automatic default templates which convert your feed ads into vertical Stories format and this quarter we just launched customizable templates, which help you save time and resources. So as we have to help advertisers move, we've learned how to make those investments in making the formats really easy, the measurement really easy, the buying really easy.

Now, the mix to Stories is a big opportunity for us. Stories still does monetize at the same rate as a News Feed right now. So, we're keeping an eye on that. But the growth over the long run is pretty exciting. And I think our ability to help people migrate is something that we're able to prove out quarter over quarter.

## **Operator**

Your next question comes from the line of Mark Mahaney from RBC Capital Markets.

### **Q - Mark Mahaney** {BIO 3027058 <GO>}

Mark, who would you want to add to the Board or what sort of voice would you want to add to the Board that would be particularly helpful for you in the Company now. And then, David, could you talk about that Stories monetization gap, to what extent it's closing the rate at which it's closing. Thank you.

### **A - Dave Wehner** {BIO 2419389 <GO>}

I can take the Stories monetization gap first and give Mark the second. So on that, I think what we're continuing to see with Stories monetization is, that is a product that's experiencing a lot of impression growth. And whenever we have a product that's experiencing high impression growth that puts pressure on the auction in terms of price. And we've also seen good impression growth on the feed side as well. So if you noted in the commentary when I talked about the drivers of impression growth, I listed feed impressions from Facebook first. So I think that's also showing good growth.

So I'd say overall not a big change in the gap there and overall the impression growth is really the story for Stories and will remain the story we think for the near future. So that will not be a price-driven revenue growth story, but rather an impression growth, revenue growth story.

### **A - Mark Zuckerberg** {BIO 15103277 <GO>}

Yes, on Board members, there are a lot of great leaders who serve on our Board, who have served on our Board. It's been an incredible benefit running the Company. We face a very wide range of issues here from really hard technological problems to issues scaling large organizations to of course a lot of now major regulatory and social issues and having different people or different perspectives can help us navigate that and provide both advice and oversight to make sure that we're doing a good job is really important.

And I just want to add one more time, Sue really did an amazing job on our Board and I'm sad to see her go and she has really helped shape a lot of what we do and I'm just incredibly grateful, perfect to mentioned it here.

## **Operator**

Your next question comes from the line of Lloyd Walmsley from Deutsche Bank.

### **Q - Lloyd Walmsley {BIO 15125459 <GO>}**

Thanks. Two questions, if I can. First you mentioned a little bit earlier the OFA feature that you rolled out this quarter in just a few markets. So can you give us a sense of what you're seeing in terms of early user response to this, how it may be impacting targeting in those markets. And then secondly, you've disclosed on occasion kind of daily search query volumes, you're now expanding ad inventory more into search. So I'm wondering if you can give us an updated sense of query volumes and then how we should think about ad coverage ramping over time within search given a lot of the searches on the platform today are people searches and how we should think about that. Thanks.

### **A - Dave Wehner {BIO 2419389 <GO>}**

Sure, I'll take those. In terms of the OFA roll out we initially launched that in August and we've been continuing to slowly roll that out globally and we'll be doing that over the next several months through the end of the year. And we're rolling it out globally on a percentage basis. We've seen a positive reception to having this feature as an option. It's too early to share adoption and we'll just have to see kind of over time how that gets picked up and how that gets adopted. But I think it's too early to really share much about it.

In terms of search, we are showing ads in Marketplace in FB search results. But really the vast majority of searches on Facebook are for people, not topics related to retailer e-commerce. So, it's very early days. And from a revenue perspective, it's not material at this point.

## **Operator**

Your next question comes from the line of Youssef Squali from SunTrust.

### **Q - Youssef Squali {BIO 1506420 <GO>}**

Thank you very much. Two questions from me as well. Mark, with GDPR now over a year old, how has it impacted your business relative to your own expectations and how does that inform your views about the potential impacts from CCPA in 2020. And then on VR, it seems like your vision has taken a bit longer than expected to materialize. Can you speak to the gating factors there and do you feel that now that Quest is at \$400 and there seems to be a lot more content out there, we're going to see potentially an acceleration in adoption. Thank you.

## **A - Dave Wehner {BIO 2419389 <GO>}**

Youssef, I'll take the question. I think it was about GDPR and how that's gone relative to expectations. We've seen adoptions around people who are opting out of allowing us to use context from the apps. And so I'd say that was largely within the range of expectations that we saw and it is having an impact and the people who are opting out are seeing less relevant ads. And obviously that will impact both, I think, the quality of the experience in terms of the ads they get and also the monetization for us. So I think that is kind of playing out as we expected. CCPA, I think is still a work in progress. So we're watching the developments on that closely. That's the California Consumer Privacy Act, and that has many similar provisions to GDPR, but it's a different line. We're going to have to watch how that evolves, but we do think that that's a factor that we're watching closely and we'll just have to see how that develops. I think, Mark, question was on Oculus.

## **A - Mark Zuckerberg {BIO 15103277 <GO>}**

Sure. And then also just add something on privacy. I think it's very important that there is federal privacy legislation. GDPR encodes a lot of important principles and in order for businesses to be able to operate, especially start-up to get started and keep the market competitive, you want to make sure that there aren't 50 different regulatory frameworks that companies need to follow. I mean, we could handle that if we needed to, we're a big company. But in terms of for the market overall, I just think it would be a lot better if we had a very clear set of rules at the federal level on privacy. So we'll continue to try to work with folks to try to do what we can to help there.

On VR and AR, you're right, that this is taking a bit longer than we thought. And I'm still optimistic, I think, that the long-term vision and the reasons why I thought this -- we're going to be important and big are unchanged. So we're seeing a lot of people use these products and love them, and because of that I think that we're still going to get there. Obviously, the fact that it's taking a little longer than we thought, it cuts both ways. On the one hand, that of course means that the future might be a few years further out and that it might be more expensive to develop because we'll be funding this for a bit longer until it gets there.

But on the other hand, from our perspective, we're not a company that's traditionally done hardware or built operating systems or these kind of products. So every year that we get to practice and get better and build our brand around Oculus in terms of building the best products that we can in this space, I just think that we're going to be better off when this is really ready to be a completely mainstream thing with hundreds of millions of people using it.

You're right that Quest is growing and doing quite well. We are selling them as fast as we can make them, the demand has been strong and the content is starting to pick up both on the AAA, really high quality side and some of the Indy stuff that I think is quite good. We are -- I am just -- I'm very excited about what we're seeing and very optimistic about the future.

## Operator

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

### Q - Ross Sandler {BIO 15948659 <GO>}

Great. So, guys, just a question on the 2020 rev outlook, calling for a more modest deceleration. So, Dave, I guess, what are some of the headwinds, tailwinds that you might see in 2020 that would cause the deceleration? Is this a function of lapping some of the impression acceleration you're seeing now in some of these innovations that you've had in '19 or is there things like the drawing on both the late-stage VC funding market and some of those companies potentially coming back on their marketing plans. Is that a material factor? What are some of the other headwinds for next year? And then one housekeeping question is, the 4Q mid-to-high single-digit decel, is that referring to constant FX growth rate or is that reported US dollar growth rate that you're expecting the decel from? Thank you.

### A - Dave Wehner {BIO 2419389 <GO>}

Yeah. Sure, Ross. It's a reported number that we're giving that on -- on a mid-to-high-single digit deceleration from the reported growth rate. I don't think there should be a huge difference in them, but we're giving it on a reported basis. So in terms of the deceleration, we continue to expect deceleration into 2020, but it would be, we believe, more moderated and the reasons for that, that we expect the deceleration. We do continue to see these ad targeting related headwinds, which have been playing out slowly, but we think are still in front of us. The majority of potential signal loss on targeting is still in front of us. And that's the three factors that I cited, the regulatory landscape, potential platform changes and then the adoption of our own products like OFA that we're just rolling out now.

So all of those will play into the potential deceleration of revenue growth in 2020. And obviously, we're lapping what's been good performance in 2019 where we've made a lot of product improvements and growing off a large base. So I think we are experiencing deceleration from that perspective. The specific sort of high level of deceleration going into Q4, we're signing the specific optimizations that we're lapping in Q4, which were more significant.

## Operator

Your next question comes from the line of Heather Bellini from Goldman Sachs.

### Q - Heather Bellini {BIO 2268229 <GO>}

Great. I just wanted to go back to the opening remarks about the 35,000 people. I think you mentioned that you have working on safety and that you're spending more, I think your budget for this area you said is more than it was back when you went public in 2012. So, maybe about \$5 billion. I just was wondering if you could share with us your view on how much you're using, you talked about AI in the past being helpful here. How long does this have to be as resource-intensive from a people perspective or do you see the ability over time as with technologies like AI



potentially helping you to get more leverage out of this existing budget, so maybe you don't have to continue to ramp it as quickly as your user base and engagement continues to grow? Thank you.

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

Sure. So over time we may not have to ramp it as much, but I don't foresee any time in the near future that AI is going to make it, so that -- this -- the cost comes down. In general what we have to do is, we use computers and AI for what they're good for, which is looking at a lot of content very quickly and making quick judgments. And we have teams of people doing what people are good for which is making nuanced human judgments. And so you build the computer system, in that way they can flag and get rid of some of the worst stuff, and so they can flag for human review, some of the stuff that's borderline and then there's just so much content flowing through the system that we do need a lot of people looking at this. And I don't think that's going to change anytime soon.

**A - Dave Wehner** {BIO 2419389 <GO>}

And Heather, I would add that, when you're using systems to look at content, when you're using AI machine learning systems, it's a real benefit to have actual people looking and tagging that content, classifying it, because it helps those machine learning algorithms be able to learn what they're looking at. So you actually have -- we do have actually ramped in people who are doing the tagging and classification. So there is actually expense related to AI that's on the human side in the near-and medium-term as well. So very much in line with what Mark said. Over time it's an opportunity to maybe slow down the growth, but it's not going to change the dynamics in the near-term.

**Operator**

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

**Q - Colin Sebastian** {BIO 6373379 <GO>}

Thank you. Mark, maybe a bigger picture question. I'm wondering how you think about the increase in scrutineer oversights impacting your or the company's ability to explore new services, new markets and ultimately remain competitive or is that not really a factor at this point? And then on payments, related to the WhatsApp test, I'm just wondering how far off in the distance do you think we are from seeing a connected payments ecosystem across the family of apps and do the growing pains for Libra impact the timing of that? Thank you.

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

Sure. So look, I think some of what you might be asking about are the antitrust questions that are out there in the investigations. And I can talk a bit about this, if it's helpful. I mean, look, I think a lot of the antitrust questions that are out there that are going to be about our acquisition of Instagram, right? And some of that -- how that might affect other things that we do today. But -- so there's going to be a lot of scrutiny of that acquisition in particular. And so I think if it's helpful I'll go back to

what it was like at the time there when we did that acquisition just to kind of layout how we were thinking about this.

And at the time, of course, in some way we considered Instagram to be a competitor, but we've always thought that the better way to target -- to think about Instagram was that it's complementary to Facebook and what we're doing. Back in 2012, people generally didn't think of Instagram as competing with our core service. We thought about Instagram in the context of this new mobile camera space that was complementary. If you remember, back then we were building the Facebook camera app. There were lots of different services. There is a camera plus VSCO Cam, Socialcam, Viddy, Snapseed. They are even apps like Path. They were all in the same space.

We thought that mobile photos were going to be important. So we were competing there with things like Facebook camera, but we ultimately thought that we were going to do better work if we were building with Instagram. But if you remember at the time, Instagram was focused on helping people take photos, apply creative filters and share them publicly across different social networks including Facebook. It wasn't a full featured social network itself. It only had about 30 million people using it at the time. I mean, I remember specifically Kevin and I set a goal that we hope that one day Instagram might reach 100 million people. And I know that that seems quaint today compared to how well it's done. But remember that a lot of the other services that were Instagram's peers and were growing quickly at the time including startups with strong teams and very talented founders like Path don't really even exist today anymore.

So look, I mean at the end of the day, the FTC makes its judgment on what we can do, the FTC had all this context when they made this decision in 2012. And the reality is, it ends up being a lot more complementary than I think we ever expected. Look, I mean, building services like this is hard, right. Instagram wouldn't be what it is today without Kevin and Mike who are just really incredible product leaders and of course did a lot of amazing work. But it also wouldn't be what it is without everything that we put into it and whether that's the infrastructure or our advertising model or spam and safety services and a lot more.

And I know it can be really hard given how well things have gone to look back and remember what the world was like at the time that we made this acquisition. But our outlook was really different then and the outcome was not all guaranteed. So look, I mean I think for all the concern about whether there is enough competition, the space today continues to be incredibly competitive. We have different competitors in the space today like Snapchat, which shows that people are always building new ideas.

And on mobile phones, of course remember that both Apple and Google has built cameras and private photo sharing and photo management directly into their operating system. So I think that kind of gives you a picture of how we think about some of the scrutiny that's coming and just how we think about doing these things in general.

## Operator

Your next question comes from --

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

There was also a question about Commerce?

**Q - Colin Sebastian** {BIO 6373379 <GO>}

Yeah, sorry. Yeah, how far off is a connected Commerce -- payments ecosystem.

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

Well, I mean we do a lot of stuff around commerce. I mean, it's -- we have Facebook Marketplace is probably the most advanced and hundreds of millions of people use that to buy and sell things. Instagram Shopping of course a lot earlier. But we're very optimistic about it. But we are optimistic on the timeframe of years, right not driving next quarter's business. And then in terms of payments, there's multiple approaches that we're taking there. We're of course working on payments in WhatsApp. We have our test going in India. It's the test really shows that a lot of people are going to want to use this product. We're very optimistic that we're going to be able to launch to everyone in India soon, but of course we'll share more news when we have that.

And we also differentiate between payment systems that are built on top of the existing financial infrastructure like what we're trying to do with WhatsApp payments or when we make payments in Instagram Shopping. And our work with something like Libra that is trying to build some new technological infrastructure for financial services. So they're working on different thing. If Libra works, then it will be able to make certain kind of payments whether they're micropayments or remittances across borders. We'll be able to be done much faster and much more affordably than it can happen today on top of existing rail.

So I remain optimistic that we'll be able to do work there, but we're just working across a lot of different fronts here because this is a huge space. It's one of the areas that I am most excited and optimistic about for the years ahead. There's a lot to do, which is why we have a lot of different projects that we're trying to push forward here.

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

Operator, we have time for one last question.

## Operator

Your last question comes from the line of Michael Nathanson from Moffett Nathanson.

**Q - Michael Nathanson** {BIO 2009061 <GO>}

Thanks. Let me as one of Mark, one of Dave. So, Mark, I remember a couple of quarters ago we asked you about the embracing or maybe paying for news, and it looks like you've struck some deals with some publishers. Can you talk a bit about that pivot and what the rationale is and maybe how big is that vision for adding news. And then for Dave, there's reports tonight about Cognizant who I guess, has been one of the Facebook screeners, Head of AI is dropping a contract. Do you expect to bring that job in-house or is that a third-party outsourcing opportunity?

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

Dave, do that and then I'll wrap on it.

**A - Dave Wehner** {BIO 2419389 <GO>}

Yeah. Thanks, Michael. No plans to bring that in-house. We obviously have a lot of people in-house who work with the third-parties on that front. But we have a wide variety of different partners beyond Cognizant who work with us. So there is no change in model planned on that front. But we continue to obviously invest heavily in that work and we'll continue to work with other partners in that space.

**A - Mark Zuckerberg** {BIO 15103277 <GO>}

All right, so on news, there are two things that I'm quite excited about here. One is just building a dedicated product space for high quality news. And the second is having a business partnership with news publishers that I think can be sustainable over the long term. So I'll talk a bit about both of them and why I think they are important. We'll start with the product, which is if you look at the Facebook App overall, for a lot of years the app was synonymous with News Feed, right, the main tab in the app and of course everyone who uses Facebook pretty much uses News Feed.

And one of the questions that we had was, there are of course a lot of things that some people want to do, but not everyone and we weren't sure if we were going to be able to build a secondary tab in the app that could be meaningful even if most people didn't use them. But we started building things like Marketplace, that is a tab that and even if the majority of people on Facebook don't use it, it's still hundreds of millions of people are using it. So that's really -- that's really valuable.

And we built Watch. We're seeing a similar trend there. It took us a little while to really get it to work the way that we wanted, but now it's growing quickly, that's going to be hundreds of millions of people who are using it. We rolled out Facebook Dating. I don't know if that will be many hundreds of millions of people just because of the size of that market, but it's going to be very useful for tens of millions of people around the world, maybe a hundred million or more. And we are of course doing this with groups and there will be opportunities to do this in other places, including with news.

So I think in the future if this works out, what we're going to see is that how people use the Facebook app is going to be, they're going to keep on using News Feed, they are going to keep on sharing with friends and family, but the average person

will also probably have one, two or three other apps or kind of secondary tabs that they use that are quite useful for them in connecting with their broader community on Facebook. But those things that each individual use, they're going to vary from person to person. So it's not going to be that everyone is using News Feed, they're going to have -- different people are going to care about different things, whether it's community, or marketplace for some or dating or news for others.

And surely even though not everyone comes to Facebook because they want high quality news, I believe that there are going to be, whether it's 10% or 20% at a floor who I think would really want something like this and we're going to work with the news publishers to make this very valuable and I'm optimistic that we can get there. So that's the kind of the product strategy on the Facebook side.

For news publishers, the thing that I'm excited about is, look, I do think that we have a responsibility to help work with news publishers to fund high quality journalism. It's no secret that the Internet has disrupted the business model for journalism and I think that that means that the major Internet platforms have a responsibility to form partnerships and help to fund this work. And the challenge that we've had historically is that when most of the usage of the app was a News Feed, what our community told us is that they really wanted more content from friends and family and less other stuff, right. So less public videos, less of other content besides friends and family.

So even though we were talking to a lot of news publishers and we wanted to find a way to support and then they of course wanted more distribution and some kind of financial relationship, it didn't really make a lot of sense in the past to pay for content that a lot of our community was generally telling us that they want to see other stuff instead of that. But now with a dedicated news tab, we finally have a space where the business model forward really works for us to be in a long-term sustainable financial relationship with news publishers, where we can pay them for high quality content that can go in there, that will be what fuels the tab, it makes it a great product and I think in doing so this can be a long-term virtuous cycle and sustainable business model and a way that we can help support journalism. And I'm really happy to do this.

**A - Deborah Crawford** {BIO 5934723 <GO>}

Great, thank you. Thank you all 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.

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