

Q1 2019 Earnings Call

Company Participants

- David Wehner, Chief Financial Officer
- Deborah Crawford, Vice President of Investor Relations
- Mark Zuckerberg, Founder, Chairman and Chief Executive Officer
- Sheryl Sandberg, Chief Operating Officer

Other Participants

- Anthony DiClemente, Analyst
- Brian Nowak, Analyst
- Colin A. Sebastian, , Analyst
- Douglas Anmuth, Analyst
- Eric J. Sheridan, Analyst
- Heather Anne Bellini, Analyst
- John Blackledge, Analyst
- Justin Post, Analyst
- Lloyd Walmsley, Analyst
- Mark May, Analyst
- Michael Nathanson, Analyst
- Ross Sandler, Analyst
- Youssef H. Squali, Analyst

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 First Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll 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 first 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 Annual Report on Form 10-K filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we may present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and an accompanying investor presentation are available on our website at investor.fb.com.

And now I'd like to turn the call over to Mark.

Mark Zuckerberg {BIO 15103277 <GO>}

Thanks, Deborah, and thank you all for joining us today. This was a strong quarter, and our community and business continued to grow. There are now around 2.7 billion people using Facebook, Instagram, WhatsApp or Messenger each month and more than 2.1 billion people using at least one every day. We're continuing to see fast adoption of Stories with each of our three Stories experiences, Facebook and Messenger, Instagram, and WhatsApp having more than 0.5 billion daily actives.

Since our last call, I've written about some major updates on the future of our services, and how we're thinking about some of the important social issues facing the Internet. So I'll focus my time today on these, starting with our privacy-focused vision for the future of social networking.

The basic idea here is that in our lives we all have public spaces like the town square and private spaces like our living rooms, and in our digital lives we also need both public and private spaces. For the last 15 years, Facebook and Instagram have become the digital equivalent of the town square where you can do almost anything you want with lots of people at once, stay in touch with your friends, meet your people, find communities that share your interest, start businesses, buy and sell things, and organize fundraisers for causes. They're just tools for sharing one thing. They're these whole rich platforms for lots of ways to interact in larger communities.

Today people increasingly want the intimacy of connecting privately as well. So I think there also needs to be a digital equivalent of the living room, a platform just as built out with all the ways that you'd want to interact privately.

We already see that messages, small groups, and stories are by far the fastest growing areas of online communication, and we also know that people want additional tools for private interactions like payments and commerce. I expect the digital town squares like

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Bloomberg Transcript

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Facebook and Instagram will always be important and will only continue to grow in importance, but there is a -- there is a lot more to build there as well, and I'm excited about that. But over time, I believe that there's an even bigger opportunity with the digital living room to build a platform focused on privacy. We all need to communicate privately and this service could be even more important in our lives. So I think that we should focus our efforts on building this privacy-focused platform.

Our plan is to build this the way we've developed WhatsApp, focused on the most fundamental and private use case, messaging, make it as secure as possible with end-to-end encryption, and then build more ways for people to interact on top of that, and this privacy-focused platform will be built around several principles. Private interactions; you should have simple intimate spaces where you have complete confidence that what you say and do is private. Encryption; your private communication should be secure. An end-to-end encryption prevents anyone, including even us, from seeing what you share. Reducing permanence; you shouldn't have to worry about what you share coming back to hurt you later. So we won't keep around messages or stories for longer than necessary. Safety; you should expect that we'll do everything we can to keep you safe on our services within the bounds of an encrypted service. So we're taking the time to get this right upfront before we ship this platform. And interoperability; you should be able to use any of our apps to reach your friends and you should be able to communicate across our networks easily and securely. And finally secure data storage; you should expect that we won't store sensitive data in countries where it might be improperly accessed because of weak rule of law or governments that can forcibly get access to your data.

So over the next few years we're going to rebuild more of our services around these ideas. There are lot of open questions and real tradeoffs on important social issues. So we're committed to working openly on this and consulting with experts and governments as we go.

Now I know one of the questions we've gotten frequently is about how this will affect our business. So I'll address that here. The reality is any impact is going to be longer term, and we don't know exactly how this will play out yet. But on some of the questions like whether encrypting content will hurt our business, I'm more confident that won't be a significant issue. We don't use the content of messages between people to target ads today. So encrypting that content won't change what we do. It'll strengthen people's privacy without meaningfully affecting our business.

Similarly, reducing the permanence of data may have some impact, but we've generally found that more recent data is more useful for recommendations anyway. So this is another step that should have a much bigger impact on strengthening people's privacy than it will have on our business.

Our stance on data localization is a risk. That is if we get blocked in a major country that will hurt our community and our business, but our principles on data localization aren't new and this has always been a risk.

Now some people have asked whether more use of private social platforms will replace the more public platforms. And our privacy roadmap applies to all of our products, but we believe that there needs to continue to be both the digital town square and the digital living room and as private platforms have grown, in some cases we've seen some cannibalization of the more public platforms in countries like India where WhatsApp is very popular, but the broader pattern across the world is that people want to use both private and public platforms. So I believe building out this private social platform is a much greater opportunity than it is a risk.

In thinking about the opportunity and impact to our business, by far the most important factor will be whether people choose to use our products and whether we can build the leading private social platforms in most countries.

Now remember, we are not currently the leading messaging platform in either the United States, China, or Japan, which are the three largest economies in the world. Our apps are in China, but innovating and succeeding in the other countries is going to be very important. People want a private social platform that is as strong on privacy as possible, so delivering this is both in the interest of our community and our business. As always, our first step is going to be to focus on building the services people want. We're still in the early stages of developing this, and we'll share more as our plans develop.

The other piece I published in the last month was about the four areas of Internet regulation I think would be most helpful around content, elections, privacy, and data portability. And the reason I wrote this is because I've spent most of the last couple of years focused on addressing the important social issues around the Internet, and while I'm proud of the progress we've made, these are areas where it doesn't feel right for a private company to make such important policy decisions by ourselves. If the rules for the Internet were being written from scratch today, I don't think people would want private companies to be making so many decisions around speech, elections, and data privacy without a more robust democratic process.

For harmful content, I think there should be a public process for determining what's allowed and required for keeping harmful content to a minimum. That could be through government or industry, but having common standards is critical since people use so many different services to share content.

For elections, there have long been laws defining what is political advertising, but we need to update those regulations to reflect today's threats like the ways that foreign nation states try to interfere in elections now. Those threats are often not covered by today's laws, and I think we'd be better off if companies didn't define those policies themselves.

For privacy, I believe it would be positive if more countries adopted regulation like GDPR as a common framework. At this point realistically most countries will adopt privacy regulation and the most likely alternative to a global framework like GDPR is the fragmentation of the Internet and more countries following the approach of authoritarian

regimes adopting strict data localization policies where governments can more easily access people's data, and I'm highly concerned about that future.

For data portability, if you have data in one service, you should be able to move it to another, but we need a common understanding of nuanced questions like what is your data and what is someone else's. If I share my birthday with you, is that now your data that you should be able to bring to your calendar apps, so we can remind you later? Or is that only my data? And if a platform like Facebook facilitates data portability, and you're bringing data through another app, whose responsibility is it if that app misuses your data? The absence of clear rules here discourages companies like ours from building tools to make it easier to move data between apps.

These questions involve difficult trade-offs. We can't have complete free speech but no hate. We can't have complete privacy while also stopping every safety threat. We can't tell platforms to keep everyone's data private, but then expect a broad definition of data portability for research or competition. The values and equities at stake are too important and too conflicting for any company to balance them in a way that everyone will be comfortable with. So part of building trust will be deferring to a public process on how to make these trade-offs.

I understand that any regulation may hurt our business, but I think it's necessary. Getting these issues right is more important than our interest, and I believe that regulation will help establish trust when people know that the right systems of governance and accountability are in place. So over the long term, I believe that that increase in the trustworthiness of Internet can have a much larger positive impact for our community and our business than any short-term hit that we're going to take.

Overall, this is an important time for Facebook. I'm excited about the direction we're heading and looking forward to discussing how we should address some of these issues more directly. As always, thank you for being on this journey with us, and now here's Sheryl to talk about our business.

Sheryl Sandberg {BIO 15339456 <GO>}

Thanks, Mark, and hi, everyone. We had a strong start to the year. Mobile ad revenue grew 30% year-over-year to \$13.9 billion, making up approximately 93% of our total ad revenue. We had solid growth across all regions and our revenue base continues to broaden as more businesses advertise with us. In Q1, our top 100 advertisers represented less than 20% of our total ad revenue, which means our advertiser base is more diverse compared to the same period last year.

We're making significant investments in safety and security, while continuing to grow our community and our business. This quarter once again shows that we can do both. As we prepare to build more services around our privacy roadmap, we're changing the way we run the company. We are committed to earning back trust through the actions we take.

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A key part of earning back trust is increasing transparency. That starts with our products, which should be as easy to understand as they are to use. Last month we updated our 'Why am I seeing this ad?' feature to give people more context and control over the ads they see. We also introduced 'Why am I seeing this post?' so people can learn more about what shows up in their newsfeed and change their preferences to make their Facebook experience more personal.

We're dramatically increasing transparency and our work on elections, but we're focused on addressing known threats and anticipating new ones. We've built up our defenses for the US midterms, and we're doing the same in other parts of the world. We've expanded our ads library to include all ads, not just electoral ads, and we've made it easier to search for and report bad ads. Ahead of the European Parliament elections next month, anyone running political or issue ads in the EU is required to confirm their identity and location and include a "paid for by" disclosure. Making online ads more transparent helps people understand who is trying to influence their vote and helps us better defend against foreign interference.

We're also working hard to ensure that our ads don't exclude or harm people. There's a long history of discrimination in the areas of housing, employment, and credit, and we don't want this happening on Facebook. In March we announced industry-leading changes. Anyone running ads in these categories in the US will no longer be allowed to target by age, gender, or zip code. We're also creating a new library where people can search through active housing ads and report them. We expect these changes will affect some advertisers' ability to run legitimate ads, but we believe this is the right tradeoff to better protect against discrimination. Going forward, we will continue making investments to increase transparency, protect our platform from interference, and help keep people safe. We're doing this because it's the right thing to do for people and because it's good for our business over the long term.

At the same time, we are focused on continuing to grow our business by helping advertisers grow theirs. We offer the unique ability for advertisers to reach the right person with the right message at the right time and for people to see ads that are truly relevant to them. We do this in a privacy-focused way that enables millions of businesses around the world to grow and hire.

Facebook and Instagram feed ads make up the bulk of our business today. We expect that to continue, but Stories are increasingly important growth opportunity. We are helping advertisers keep up with the shift in how people are sharing, just as we did with mobile. We're proud to announce that we now have 3 million advertisers using Stories ads to reach customers across Instagram, Facebook, and Messenger.

Now we've learned it's not enough to make a new format available. We also need to make it easier for advertisers to optimize their campaigns, and that's what we're doing with Stories. Last month we introduced interactive stories ads globally on Instagram. People in businesses already use interactive features to start conversations in their stories, and now advertisers can use polling stickers to stand out and drive results. When Dunkin' promoted its Donut Fries with an interactive poll in their stories ads, more than one in five

people who saw the ad voted, which increased engagement and drove 20% lower cost per video view.

In addition to helping advertisers make the shift to new ads experiences, we're making it easier for people to shop directly on our app. We recently announced Checkout on Instagram, so when people find a product they love and they post a story, they can buy it without leaving the app. We launched with 23 brands in the US, including Adidas and MAC. While this is a very small closed beta and we know this will take a long time to develop, we're excited about this next step for shopping on Instagram.

Commerce is a growing area for us too. We're seeing millions of interactions between buyers and sellers in Marketplace every day. Last quarter we expanded Marketplace ads to more countries and are seeing positive early results. For example, Succulent Box, an online subscription plant business generates 18% of its total sales from their listings on Marketplace.

As we continue to make ads and commerce better, we're focused on helping advertisers connect directly with people. In Q1 we launched collaborative ads, which give brands that don't have a direct-to-consumer channel a way to run e-commerce campaigns with the retailers. Samsung recently tested collaborative ads with Fravega, an electronics retailer in Argentina. They targeted broad audiences who had viewed Samsung products on the retailer's website and the campaign resulted in a 21% lift in sales.

I want to close by saying how grateful I am to our partners around the world. Every day they give us valuable feedback on how to improve our products, so we can help them grow their businesses. I also want to thank the Facebook team to drive that growth while also making progress on the major social issues facing the Internet and our company. I'm grateful for my colleagues' continued dedication and hard work.

Thanks. And here's Dave.

David Wehner {BIO 2419389 <GO>}

Thanks, Sheryl, and good afternoon, everyone. Let's begin with our community metrics. Facebook daily active users reached 1.56 billion, up 8% compared to last year, led by growth in India, Indonesia, and the Philippines. This represents approximately 66% of the 2.38 billion monthly active users in March. MAUs grew 179 million or 8% compared to last year.

Turning to our family metrics. We estimate that on average over 2.1 billion people used at least one of our apps on a daily basis in March and around 2.7 billion people were active on a monthly basis. We believe these numbers better reflect the size of our community and the fact that many people are using more than one of our services.

Turning now to the financial. All of the comparisons are on a year-over-year basis unless otherwise noted. Q1 total revenue was \$15.1 billion, up 26% or 30% on a constant currency basis. Had foreign exchange rates remained constant with the first quarter of 2018, total

revenue would have been approximately \$503 million higher. Q1 total ad revenue was \$14.9 billion, up 26% or 31% on a constant currency basis.

In terms of regional ad revenue growth, US and Canada were strongest at 30%, followed by Asia-Pacific at 28%, and rest of world at 23%. Europe grew more slowly at 21% and was impacted in part by currency headwinds. In Q1, the average price per ad decreased 4% and the number of ad impressions served across our services increased 32%. Impression growth was primarily driven by ads on Instagram stories, Instagram feed, and Facebook newsfeed.

The year-over-year decline in average price per ad reflects an ongoing mix shift towards stories ads and geographies that monetize at lower rates. Payments and other fees revenue was \$165 million, down 4% year-over-year and down 40% from Q4, which benefited from holiday sales of Oculus and Portal.

Turning now to expenses. Total expenses were \$11.8 billion, up 80%. This includes a \$3 billion accrual taken in connection with the inquiry of the Federal Trade Commission into our platform and user data practices. This matter remains unresolved, and we estimate that the associated range of losses between \$3 billion and \$5 billion. Absent this accrual, our total expense growth rate would have been 46 percentage points lower.

We ended Q1 with approximately 37,700 full-time employees, up 36%. Operating income was \$3.3 billion, representing a 22% operating margin. Absent the accrual, operating margin would have been 20 percentage points higher.

Our Q1 tax rate was 30%, and was higher than the mid-teens guidance given the tax treatment of the accrual. Net income was \$2.4 billion, or \$0.85 per share. The accrual we recorded reduced EPS by approximately \$1.04. Capital expenditures were \$4 billion driven by investments in data centers, servers, office facilities, and network infrastructure. We generated \$5.3 billion in free cash flow and ended Q1 with approximately \$45.2 billion in cash and investments. In Q1, we bought back approximately \$521 million of our Class A common stock.

Turning now to the revenue outlook. We continue to expect that our revenue growth rates will decelerate sequentially throughout 2019 on a constant currency basis. In addition, we anticipate ad targeting related headwinds will be more pronounced in the second half of 2019.

Turning now to the expense outlook. We are adjusting our expense outlook which now includes the accrual we recorded in Q1. We now anticipate full-year 2019 total expenses to grow to 47% to 55% compared to 2018, up from our prior guidance of 40% to 50% growth. The \$3 billion accrual accounts for approximately 10 percentage points of the anticipated expense growth. Thus excluding the accrual this revised outlook implies a modest adjustment in our guidance on 2019 core expense growth rate.

Note that this does not change our longer-term outlook on the need to invest in core product, infrastructure, Innovation, and safety and security, and the ultimate impact of

those investments on our operating margin. We are updating our 2019 capital expenditures outlook to be \$17 billion to \$19 billion, down from our prior estimate of \$18 billion to \$20 billion. Our capital expenditures are driven primarily by our continued investment in data centers and servers. We expect our tax rate for the remaining quarters of 2019 to be in the mid-teens.

In summary, Q1 was another good quarter for Facebook. We are pleased with our ability to grow our community and business, while at the same time investing heavily for the future.

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Doug Anmuth from J.P. Morgan.

Q - Douglas Anmuth {BIO 5591566 <GO>}

Thanks for taking the questions. Mark, I was hoping you could just talk a little bit more about the timeframe for building out privacy-focused social platform. Are you thinking one year, three years, five years? What's the right way to think about that? And also how you layer in additional services and functionality for users as you go along? And then one for Sheryl as well around Stories ads. You mentioned 3 million plus advertisers. Can you just talk about how the increased density there is translating into pricing relative to the feed? (inaudible) over time Stories ads could monetize relative to feed ads? Thank you.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Sure. So for the timeframe for this, I think that this is going to be a central focus for the company for the next five years or longer. Parts of this we already have a strong foundation on where WhatsApp and Messenger are strong around the world. But lot of the most important countries for this, like I mentioned in the United States and Japan, we're not the leading private communications service today. So there the most important thing that we need to do is get the basics right and make sure that we are providing hands down without any question in anyone's mind the clear best service in those areas.

So we'll talk about both of these things over -- a lot over the coming months and the plan. I'll share a little bit more at F8 next week in terms of the product roadmap and what we expect to see on this. But some of the things -- we're also going to intentionally take a longer period of time than we might have previously in order to get safety right. So when I first announced that we were going to be moving our private communications services to all be end-to-end encrypted, I was very clear that we're planning on taking at least a year to go consult with experts and governments and law enforcement around the world to make sure that we have the right safety systems in place to make sure that we handle this really well, right, because there are really important safety and content issues in

messaging, and if we don't have the ability to see the content, we need to make sure we have different tools in place to handle that.

And this is a different approach than we would have taken a few years ago, right. A few years ago, we probably would have rolled this out and then tried to deal with issues as they came up with, but now part of our new approach of trying to be more proactive about social issues is trying to build in from the ground up, getting this right upfront.

So the playbook is going to be work on getting the basics right, make sure that we get safety right from the beginning. In countries where we already are the leading platform, there will be more ability to work on things like payments in the near term and build in additional ways that people want to interact privately. But in terms of when I expect this to be a real contributor to the business, I don't think in the next couple of years that's going to be a major driver. This is just a big focus for us, which is why I'm talking about it now.

A - David Wehner {BIO 2419389 <GO>}

So Doug, it's Dave. I'll take the question on Stories. So we are seeing more of our impression growth coming from Stories and when I outlined the factors driving impression growth, I listed stories first. It was the largest contributor of year-over-year impression growth in the quarter. But those impressions are coming in at lower prices than we see in feed, so if anything the mix shift on growth towards Stories is, certainly in the near term, a headwind on revenue growth.

On pricing, specifically, we're seeing such strong impression growth, but this supply growth keeps prices low and creates an opportunity for advertisers, and we're seeing smart advertisers take advantage of that. Ultimately, we believe we can increase demand for Stories as we attract more advertisers and bring more effective direct response units to stories, but this -- and over time that will play through to increased prices, but this is going to take years not quarters. So at least in the near term, we're going to see a meaningful discount on prices on stories.

Operator

Your next question comes from Brian Nowak from Morgan Stanley.

Q - Brian Nowak {BIO 16819013 <GO>}

Thanks for taking my questions. I have two. Just to go back to the Story monetization plan with the 3 million advertisers, could you just talk us through some of the main strategies you've used to really drive the Stories advertiser adoption? And then any clarity you can help us better understand what the -- what type of lift you're seeing in spend per advertiser as they start to spend on both Newsfeed and Stories? And then, Dave, just to kind of come back to your comments about revenue for the year. You mentioned the ad targeting headwinds will be more pronounced in the second half. Can you help us better understand why that is sort of changes to expect that would drive that? Thanks.

A - Sheryl Sandberg {BIO 15339456 <GO>}

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Yeah, this is Sheryl. I'll take the Stories question. So one of the things we learned is that consumers usually move to new features, to new products, to new places before marketers, and it's really up to us to help marketers move there quickly. We definitely saw that with mobile. One of the barriers was convincing marketers that they needed to be with mobile. But then there was a second barrier which was just making it easier for them to do it. So if you take your long TV ads or your 30-second TV spot and you just put it on mobile, it doesn't perform as well as a mobile-first ad, and that's been something we've worked on.

So now we're really applying that lesson to Stories. So first, we need to convince marketers that people are using Stories, and I think having seen the mobile shift, they're getting that I think more quickly, but then we have to make it easy. So if you look at some of the tools and products I've talked about in the last couple quarters, now you can -- rather than us saying to you, go make a Stories ad, you can just send us some pictures, some text, some very easy post, and we will create the story ads for you.

So our process is we have one sales team selling all of these products. I think that helps us a lot because they already have those relationships. And we're doing all we can to make it very easy to adopt the format. We also want to make this as automated as possible. So the long run view should be that, you can give us maybe simple pictures, maybe simple videos, maybe an ad you've produced, and we can do the placement for you because we think over time we will -- our systems will do a better job deciding where your ad should be placed and even helping you target. And so you're seeing us build tools in that direction as well.

In terms of how much of it's incremental, I'm sure not all of it is. There definitely has to be some cannibalization from people who were doing feed ads as they do Stories, but we've seen that over time as we move people, we're able to get increasing shares hopefully of their budget. But it's our job to earn that. We tell marketers all over the world that we want to be the best dollar, the best minute, the best euro they spend, and it's up to us to prove that ROI, and we're going to continue to do that.

A - David Wehner {BIO 2419389 <GO>}

Hey, Brian, it's Dave. We already talked about on the supply side the impact that Stories is having, and the supply growth really getting driven by Stories is coming through at lower prices. So that's one of the factors that factors into the lower growth outlook for the second half. But on the demand side, we wanted to specifically call out several factors that are contributing to ad targeting headwinds.

The first is just the evolution of the regulatory landscape and here I would point to regulations like GDPR. The number of people who have opted out on using context from the apps and websites that they visit for ad targeting has continued to increase since the adoption of GDPR. So we've seen that come up both in Europe and around the world. That means those people are seeing less relevant ads and that's an ad targeting headwind for our business.

The second factor is just anticipated changes that mobile platforms will make that will make targeting and measurement more difficult. And the third is Facebook -- our own product changes. For example, in the fall, we plan to roll out our tool for seeing and clearing your Facebook browsing history. In addition, we've introduced restrictions on the use of certain targeting criteria for some ads. So we're seeing a cumulative impact from all of these factors leading to -- leading to what we expect to be targeting headwinds for the -- for the back half of the year.

Operator

Your next question comes from Heather Bellini from Goldman Sachs.

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

Great, thank you. I had two questions. The first one I guess, Mark, was given the focus on backend integration that you've been talking about and a platform increasingly focused on privacy, I was wondering how you think about the incremental expenses, if any, to achieve this. And in particular, if I go back to your comment on your third quarter earnings call, you commented that over time you knew there was a need to ensure that cost and revenue were better matched. Does any of your recent areas of focus change your timeframe associated with that to occur? And then I had a follow-up on IGTV and Watch. I was just wondering if you could share with us how these are performing versus your expectations and kind of what the differences are that you're seeing between the two. Thank you.

A - David Wehner {BIO 2419389 <GO>}

Heather, I can -- I can take that. I mean in terms of the focus on privacy, the one thing that I would -- I would sort of cite there, if anything the priority for messaging is clear, the focus on privacy and interoperability, and that means that monetization for messaging is a lower near-term priority. So that has some -- has some impact on the outlook.

And then when it comes to how we're thinking about expense growth as we look beyond 2019, we're not providing specific guidance. But I'd note that we continue to invest aggressively across the business, and there is no change in our long-term outlook on the need to invest heavily in areas like safety and security, innovation in our core product and infrastructure, and the ultimate impact that those will have on our operating margins. So we're still positioned to invest aggressively both in 2019 and beyond.

On IGTV and Watch, do you want it -- does anybody want to take that?

A - Mark Zuckerberg {BIO 15103277 <GO>}

Well, if you're going to -- you get to do the numbers and I'll do the color. So go for with whatever you wanted to say, and then I'll jump in after. All right, well, before we get to IGTV and Watch, I'll just add on the cost point that this is something that I'm focused on personally. I care a lot about making sure we make the right investments in safety and in innovation long term. So I'm committed to doing that. But of course, I get that in running a company, you don't want to have costs growing at a much faster rate than your revenue

for a long period of time, and that's why I called that out last time because I care about making sure that we get that back more in line soon.

On the Watch, generally, this is starting to go quite well. It's early, but one of the big questions around Watch that we had early on was to what is going to be people's demand to go to a separate tab to have an experience that's dedicated to interacting with people around a certain type of content. If you remember, the reason why we got to this strategy it was because people wanted to watch a lot of video, but we saw that passive consumption of video was displacing social interactions and newsfeed. And when you think about what Facebook stands for in the world and the really unique value that we can deliver to people, it's primarily around helping people stay connected and have meaningful interactions.

So it was really important to me and I think to the long term of what our product stands for to make sure that newsfeed is always about meaningful interaction. So while people wanted to consume a lot of video and we thought that there are new ways that people could interact around that, we wanted to create a separate place that people could go to do that.

And one of the big open questions was to what extent -- what percent of people are going want to go and do this. And now with more than 100 million people doing this, I think we've really proven as part of that hypothesis that this is something that people are going to want to go do. So that also not only with Watch which is continuing to grow quickly, this also opens up opportunities around things -- around doing this around areas like news which I've recently started talking about, and I don't have anything too specific to add today. We're trying to take a very consultative approach to how we develop anything around news or any of the things that touch the big social issues and certainly supporting journalism is up there as one of the really important things that we care about.

So we want to make sure that we do this in a consultative way with a lot of folks in journalism and in the industry, but as Watch has grown, it has proven to us that that these sub-experiences as part of our different apps, similar with IGTV, can be quite successful, and that's an optimistic sign for me for the future.

Operator

Your next question comes from Eric Sheridan from UBS.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Thanks for taking the question. Maybe two if I can. Mark, for you, I guess as we read your statements and listened to you on the calls over the last sort of 1.5 year, end of '17, I think investors are still trying to figure out the future business model or monetization path for Facebook as a company. Is it more media consumption and advertising driven, or do you think you're in the process to pivot towards more e-commerce and we know there is a privacy focus over all of that? But I'd love sort of your view on how you think about the puts and takes between an ad-driven model and an e-commerce-driven model or somewhere in between those two as you look out over the next three to five years.

And I don't know if this is best for Dave or not, but on the FTC you threw out \$3 billion to \$5 billion. What sort of probability should we assume to that being the likely outcome within that range? And how should we think about some of the changes, if any, that might happen to the business model if you were to settle with the FTC? Thanks so much, guys.

A - David Wehner {BIO 2419389 <GO>}

I can take the FTC one first, Eric. Look, the accrual is an accounting entry related to the ongoing settlement discussions that we're having with the FTC. This matter is not resolved. So the actual amount of payment remains uncertain. However, we're estimating this range of loss to be \$3 billion to \$5 billion. Can't really comment further as this is an ongoing matter. We booked at the low end of the range in accordance with the applicable accounting guidance. So really not much more to add on that front.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Sure. In between advertising and commerce, it's really a continuous spectrum, and they're not two different things, right. So, advertising is going to be the way that the revenue comes in for the foreseeable future, but what we expect is as we build out more commerce related features around shopping and Instagram and Marketplace and Facebook and certainly the private social platform that we're -- that I've been talking about, I think will lend itself to private interactions around payments and commerce and interacting with businesses in that way.

I think what we're going to see is we're going to build more tools for people to buy things directly through the platform. But I would expect that that will mostly come and affect the business through -- as those products that we build help businesses convert better, it will be more valuable to them and therefore that will translate into higher bids for the advertising and that'll be how we see it.

Over the long term, if payments becomes a really important part of what we do, we can -- we'll have some options and choices about how we choose to have the revenue flow to us in the future. But for the near term, the way that we're thinking about that offering is many of these things at cost and for free as possible to deliver as much value to small businesses and businesses around the world. And I would imagine that that will come and contribute to our business through advertising in a way than it has historically.

Operator

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

Q - Justin Post {BIO 3469195 <GO>}

Great. Couple questions. Thank you. First, Dave, does your revenue outlook include any contemplated regulatory changes between now and the fall? And then second, just kind of wondering if anything caused the expense forecast to go slightly down this year. And just maybe if you could give us an update on that 35% long-term target margin you provided I believe on the July call last year. Thank you.

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A - David Wehner {BIO 2419389 <GO>}

Thanks, Justin. On the revenue outlook, I'm not exactly sure what you're getting at with the contemplated regulatory changes, but I did cite that one of the factors in the expected deceleration was the ongoing impact of the evolution of the regulatory landscape from things like GDPR and the number of people who are opting out of using context from third-party apps and websites. So that is going to we expect continue to increase, as well as we're making our own product changes with things like tools for seeing and clearing your Facebook history and restricting the use of some ad targeting. And some of that is in response to just the evolution of the regulatory landscape. So I think it does factor into it.

In terms of the expense guidance, we don't have a specific update on long-term margin target, but I would just note that we are not changing our overall philosophy of continuing to invest aggressively across the business in these important areas like safety and security and innovation, which are going to play into continued expense growth, both in 2019 and 2020. So no real change there. It's more a question of pacing and better visibility on the pace of headcount growth and investment in 2019. But the ultimate end outcome I don't think is changing on that front. We're still expecting to continue to invest aggressively in the business and that will have an impact on operating margins.

Operator

Your next question comes from Anthony DiClemente from Evercore.

Q - Anthony DiClemente {BIO 21089686 <GO>}

Thank you for taking my questions. Maybe one for Sheryl and one for Dave. Sheryl just on Checkout, Instagram Checkout, maybe talk specifically about the improvements that reduced friction can provide to marketers in terms of ROI on their ads, in terms of the benefits that are created from the reduced friction of buying a product without leaving the app.

And then maybe for Dave, just noticed that the daily active users on Facebook in the US and Canada were stable sequentially. So anything around that in terms of what does your revenue outlook kind of assume in terms of with the continued stability there? Any color around what you're seeing in terms of time spent or engagement on Facebook would be really helpful. Thank you.

A - Sheryl Sandberg {BIO 15339456 <GO>}

So in shopping in general, we do see a lot of interest in our apps in shopping, Instagram specifically where we launched Checkout, 130 million Instagram accounts are tapping to reveal products or learn more about products and post every month. So I think there's a real opportunity. We're excited about Checkout, but I really want to stress how early this is. This is a small closed beta with 23 brands and for us that's obviously a very small number, and it's not primarily a monetization product as your question assumes. Really the benefit here is enabling a better experience for people that when they're interested in a product, they can learn more and checkout right there.

Obviously as people learn about things through our ads and then close the loop all the way to purchase, it's very, very strong for proving ROI. It also helps us measure that return as well. So we're excited about this kind of thing, but this is as early as anything could be.

A - David Wehner {BIO 2419389 <GO>}

So, yeah, Anthony, on DAU in the US and Canada, true, that was stable in terms of the number of DAU quarter-over-quarter. And I think that broadly paints the right picture in terms of engagement as well. So we're not providing a specific time spent update, but I think it paints a picture well on the DAU front.

In terms of the strength that we're seeing in the US and Canada on the revenue front, obviously Instagram is playing a big role there and the growth of impressions from stories is factoring into it. And at the same time, we're seeing continued pricing growth on feed and that's true for both Facebook and Instagram. And there we're relying on continuing to improve targeting. And so you've got -- the risk there is, of course, the headwinds that we've talked about on the ad targeting front and how that will play into US growth as well.

Operator

Your next question comes from Mark May from Citi.

Q - Mark May {BIO 4280734 <GO>}

Thank you. To Sheryl's earlier point about the evolution of Stories, the perception is that core Facebook user adoption of Stories format has been -- hasn't been all that meaningful. How would you characterize the adoption on core Facebook? And if it is in fact relatively low, is that important for the company to address? And then secondly, with impression growth of I think you said, Dave, 32% that's obviously significantly higher than the 8% growth in MAUs. What would you largely attribute that to? Is that a reflection of improving engagement? Or the ability to kind of increase ad loads globally? Thanks.

A - Sheryl Sandberg {BIO 15339456 <GO>}

So on Facebook Stories, we have 0.5 billion people using it daily, and we think that's pretty impressive growth. We're seeing real engagement. In ads and Stories, we rolled out globally about 1.5 years after launching Instagram, so it's still early, but we're definitely seeing a lot of value for businesses on Instagram, and we believe the same on Facebook. To share one example, a local e-commerce jewelry brand called Lokai started donating 10% of their net profit to charitable partners and they started running video ads in Facebook Stories and newsfeeds, and just the addition of Facebook Stories drove 26% more additions to their checkout cart. So I think we are seeing that including on Facebook, including in ads, even though it's earlier, the additional opportunity is big.

A - David Wehner {BIO 2419389 <GO>}

So Mark, it's Dave. So in the impression growth, I sort of cited the drivers in order of impact and I listed Instagram Stories first and then Instagram feeds. So Stories is the biggest individual driver of impression growth, and we talked about how that is coming through at lower prices. And there's some opportunity to increase -- we were seeing

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increased engagement and stories and there's some opportunity to increase load going forward.

On Instagram feed, which was the second factor, we have seen some increase in ad load on Instagram on a year-over-year basis, but we expect that there'll be much less significant growth opportunities going forward on Instagram feed ad load.

And then finally, you've got Facebook feed, which we're still seeing an impression growth and that's coming around the globe and we're tending to feed growth in -- outside the US and Canada. So that gives you some color on sort of the type of impression growth that we're seeing.

Operator

your next question comes from Ross Sandler from Barclays.

Q - Ross Sandler {BIO 15948659 <GO>}

Great. Mark, so you mentioned payments and commerce a bunch of times in your March letter and also today. So I guess can you talk about how you see the strategy developing for payments and commerce on WhatsApp compared to maybe what you see broadly out there from other folks building these capabilities around messaging?

And then what timeline should we expect to start to see some of this come out? And lastly any insights on what the blockchain team at Facebook is working on and how does that potentially tie into the overall payment strategy? Thanks.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Sure. So across -- the commerce and payments are an area that I'm quite focused on and optimistic about across all of our different services. So in Instagram and Facebook you have Shopping and you have Marketplace, and you have all the tens and millions of small businesses that use pages and a lot that use Instagram for sharing their inventory and being able to help people discover it and pay.

Through messaging specifically I'm more optimistic because of the private nature of this space, right. It feels when you're using a messaging service, you know that everything there is very intimate and private. So it feels like a more natural space to be interacting with the business in a private way for doing transactions.

So I think what we're going to end up seeing is building out payments, which is going to end up being something that we do country by country. We have a test that is running in India for WhatsApp now. We're hoping to launch in several other countries at some point, but I don't want to put a timeframe on that here. But it's something that we're actively working on. And the goal would be to have something where you can do discovery through the broader town square like platforms in Instagram and Facebook, and then you can complete the transactions and follow up with businesses individually and have an ongoing relationship through Messenger and WhatsApp.

And it's -- this is one of the things I think will create a lot of value for people discovering and interacting with businesses. I don't know many people who like calling businesses to deal with issues that they have. So I think being able to handle that through messaging is going to be a great experience. For businesses, I think this is going to help complete the loop and help them actually sell more things, which ultimately is on -- is what they care about when they're using the platform. So this is just a big opportunity and one of the areas that I'm quite excited about.

Operator

Your next question comes from Lloyd Walmsley from Deutsche Bank.

Q - Lloyd Walmsley {BIO 15125459 <GO>}

Thanks. Had a couple related to commerce topic. I know it's early on Instagram, but in the blogpost, you all alluded to opening up the platform more broadly. So wondering kind of what the timeline might be? And how easy would it be for smaller businesses to integrate here? And then I guess, second one related to that would be as you start to test this with Checkout on Instagram, do you see any change from participating brands in their strategy around ad spend on the platform as part of those tests? And kind of how that might evolve over time?

A - David Wehner {BIO 2419389 <GO>}

Yeah. And Sheryl can add some color here. But Lloyd, it's Dave, I just want to make -- sure, we've got a very small closed beta with 23 brands. It's very early days, and it will take a while for this to have any impact. So I think it's something we'll be watching and nurturing, but it's going to take a while before Instagram shopping has any meaningful impact on the business.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Yeah. And we haven't announced anything in terms of opening up the product more broadly so that people could sign up automatically, which is where small businesses would come in. We're going to get feedback and expand in time, but with all of these things, we're doing them very slowly. We have a lot of teams working on a lot of very important projects and ads, and this is one we're going to roll out very slowly and carefully.

Operator

Your next question comes from Michael Nathanson from MoffettNathanson.

Q - Michael Nathanson {BIO 2009061 <GO>}

Thanks. I have one for Mark and one for Dave. Mark, I appreciate your call about regulating the Internet. You've been outspoken on that. I just wonder if you've any views on the EU Copyright Directive, which YouTube has been critical of, or the Australian law about violent material. And if those laws become more global, do you think the company

is prepared operationally to protect the platform from those types of challenges by regulators?

A - Sheryl Sandberg {BIO 15339456 <GO>}

So, we're working with policymakers to ensure that people can share and express themselves while still protecting copyright. In terms of the experience in Europe, some of the provisions could impact the user experience in Europe, but we're going to continue to work with policymakers to try to get the balance right.

Operator

Your next question comes from Colin Sebastian from Baird.

Q - Colin A. Sebastian {BIO 6373379 <GO>}

Great. Maybe a quick follow-up on the platform safety issue, maybe specifically with respect to broadcast. I'm wondering how close you are in terms of the ability to prevent harmful posts or videos from reaching users on a real time basis and how much of this can realistically be done today using AI versus more manual processes? And then secondly, Mark, just considering the fast adoption of voice interactions and interfaces online, how should we think about Facebook's strategy and competitive positioning as an opportunity to strengthen the connections that exist between the apps or would voice interaction be a distinct feature perhaps within the apps? Thank you.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Sure. So on safety, I think given the volume of content that people share, if you want to have any hope of doing it in real time, the only hope is building AI systems that can either identify things and handle them proactively or at the very least flag them for a lot of people who work for us who can then look at them rather than waiting for people in our community to flag those after they've already seen them. I mean, the reactive model of waiting for people in the community flag them guarantees that by the time that we get to look at an issue, someone has already seen that content, which is not the state that we want to be in.

So the state that we're trying to get to and hold ourselves accountable to is where we have these transparency reports; right now every six months, but we want to get to quarterly on those soon. And in those transparency reports we break down every category of harmful content, everything from terrorism to hate speech to bullying to nudity, and in each one, we talk about the prevalence of the content that people see, right, because we think what matters is the number of impressions or people that are seeing the content, not just -- not if a lot of people are sharing something but no sees it, but what is actually getting seen. So one piece of content that gets seen by a lot of people is a big deal.

And then in these reports, we also talk about and show what percent of the content we handle proactively and identify proactively. And our goal is to get that to be as high as possible. So in areas like terrorism, for Al-Qaeda and ISIS-related content, now 99% of the

content that we take down in that category our systems flag proactively before anyone sees it. So that's what really good looks like. I don't know that in every category we're going to be able to get to 99%, certainly not in the next six months or a year, but my hope would be that we can get to 90-plus percent on most of these categories within the next couple of years. And that's I think the best hope for doing this. That's going to be a big continued investment and something that we really care about getting right.

The other question was about voice. Most of what we build -- one of the things that's different about Facebook and social product is more of it is about people interacting with each other than just people interacting with us, right. And so we're certainly very focused on things like video calling and voice calling in ways that people can communicate with voice. We have worked on some voice products in Portal. That's an important way that people interact, and having Portal out in the market has been very valuable, in terms of seeing how people want to use that and for -- so our teams have -- can have a real target to shoot at and iterate on and kind of continue improving week over week. That's been a meaningful improvement. But in all these different ways, voice and how people interact with each other and eventually building products that allow people to interface with our products through that, we're quite focused on this.

Operator

Your next question comes from John Blackledge from Cowen.

Q - John Blackledge {BIO 7387802 <GO>}

Great, thanks. Could you provide some color on ad loads for Instagram Stories versus Instagram feed at this point? And also any color on how conversion rates have trended on Stories ads in Instagram over the past year? And then other question just on CapEx, the guide was brought down slightly. Just any call out there? And then any view on kind of longer-term CapEx given the ramp the past couple years? Thank you.

A - David Wehner {BIO 2419389 <GO>}

Sure. I'll take that, John. So on the ad load for Instagram stories versus Instagram feed, I mean it's hard to compare stories exactly to feed because there's different characteristics of stories versus feed because you have effectively rolls of video when people are posting lots of stories and the interstitials are in between the role. So it's a little bit different than feed post, so comparing apples and oranges a bit. But we do have opportunities we think to increase effective ad load on stories where Instagram feed and Facebook feed are -- we think the opportunities are much more limited to increase ad load going forward.

In terms of conversion rates, I'll probably just go back to the discussion that we had on pricing and the fact that we've got a lot of -- we've got a lot of supply opportunity and pricing is clearly lower on stories than on feed. Part of that is due to the fact that we don't have as many direct response formats in stories, so that reduces the opportunities for conversion opportunities on stories. And as we are more effective at getting direct response into stories, that should improve. So some opportunity there.

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On the CapEx guidance, this is really just about better visibility on how spend will come through. A big component of CapEx is data center builds. Those are large complex projects. So the timing of that spend we just get better visibility on as the year progresses. But no real change in outlook. We're continuing to invest heavily in the business. The capital intensity of the business over the last several years has come up, and part of what is driving that are real changes in the business as it relates to our opportunity to deploy capital against things like ads targeting as well as the fact that we've seen the user base growth shift to regions like Asia and we're now building our CapEx to what's effectively an Asian peak, and so that's a lower ARPU user base. So that does have some impact on capital intensity, and part of the driver where we've seen real kind of capital intensity increase over the -- over the past several years.

A - Deborah Crawford {BIO 5934723 <GO>}

Operator, we're going to take one last question.

Operator

The last question comes from Youssef Squali from SunTrust.

Q - Youssef H. Squali {BIO 1506420 <GO>}

Great, thank you very much. Actually just have one question around regulation. Mark, you've been obviously pushing for clear rules of the road for you and for the other companies to play by. What have been the feedback so far from regulators? How long do you think it'll take to come to some sort of resolution, especially considering that we're going into this two-year election cycle? Thanks.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Well, one of the things that I've been focused on is trying to help develop global frameworks where possible, but the challenge of course with that is that accepting a limited number of cases, regulation typically isn't global, it's national. So I would expect that we'll see different countries make progress on different timeframe.

I had a recent trip where I was in Berlin and Dublin talking to a bunch of folks who are policymakers or academics out there. And certainly, I think people are thinking about all of these issues, and certainly Europe has led on areas like privacy regulation with GDPR and is probably further along in thinking about how to think through issues around content regulation and safety as well.

So I think we'll see different pieces of people doing things in different countries around the world. But a lot of what we hope that we can -- that we can contribute to this discussion is as much as possible have shared frameworks for how the industry should operate around the world.

A - Deborah Crawford {BIO 5934723 <GO>}

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Great, thank you. Thank you 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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