

Company Name: Facebook
Company Ticker: FB US
Date: 2018-07-25
Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
Current PX: 217.50
YTD Change(\$): +41.04
YTD Change(%): +23.257

Bloomberg Estimates - EPS
Current Quarter: 2.130
Current Year: 8.551
Bloomberg Estimates - Sales
Current Quarter: 14217.526
Current Year: 56813.978

Q2 2018 Earnings Call

Company Participants

- Deborah Crawford
- Mark Elliot Zuckerberg
- Sheryl Kara Sandberg
- David M. Wehner

Other Participants

- Brian Nowak
- Eric J. Sheridan
- Ross Sandler
- Douglas T. Anmuth
- Heather Bellini
- Mark Mahaney
- John Blackledge
- Justin Post
- Mark A. May
- Richard Greenfield
- Anthony DiClemente
- Peter C. Stabler
- Brent Thill
- Colin Alan Sebastian

MANAGEMENT DISCUSSION SECTION

Deborah Crawford

GAAP and Non-GAAP Financial Measures

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

Mark Elliot Zuckerberg

Q2 Highlights

Revenues and Active

- We had another solid quarter
- Revenue grew 42% y-over-y to \$13.2B
- And Facebook now has more than 2.2B monthly active with almost 1.5B actives using it every day

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

People Using at Least One Apps

Individual People, More than One of Services

- For the first time today, we're also releasing how many people use at least one of our apps, Facebook, WhatsApp, Instagram or Messenger, and that's 2.5B people each month
 - This number better reflects our community for a couple of reasons
- First, it refers to individual people rather than active accounts, so it excludes when people have multiple active accounts on a single app
- And second, it reflects that many people use more than one of our services
- And Dave will explain this in a little more detail later

Investments

- I want to start by talking about all the investments we've made over the last six months to improve safety, security and privacy across our services
- This has been a lot of hard work and it's starting to pay off

Ad Transparency Tools

- We recently launched two important ad transparency tools: one to let anyone see the ads any page is running even if the ads aren't targeted to you; and the other an archive of ads with political or issue content that's starting in the U.S. ready for the midterm election
- These ads are now labeled so you can clearly see who's paying for them and, within the archives, you can see the budget associated with each ad, how many people saw it, and search all ads with political or issue content that an advertiser has run for up to seven years
 - This level of transparency will mean increased accountability and responsibility for advertisers globally

Elections

- Over the next 18 months, there are important elections beyond the U.S. in Brazil, India, and the EU, and these will all be real tests for Facebook
- But I'm confident that we will get this right given our results during last year's French and German elections, the Alabama special election, as well as this month's presidential election in Mexico, where our systems found and removed thousands of fake account pages and groups that violated our policies

Well-Funded Adversaries, Misinformation and Fake Accounts

- Of course, security is not a problem that you ever fully solve
- We face sophisticated well-funded adversaries who are constantly evolving
- But, during each election, we learn and improve too
- We're also making progress in the fight against misinformation

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- We're getting rid of the financial incentives for spammers to create fake news, much of which is economically motivated
 - We stopped pages that repeatedly spread false information from buying ads
- And we also use AI to prevent fake accounts that generate a lot of the problematic content from ever being created in the first place

Investments and Graphic Violence Content

- Our investments in AI mean that we can now remove more bad content quickly because we don't have to wait until after it's reported
- It frees our reviewers to work on cases where human expertise is needed to understand the context or nuance of a situation
- In Q1, for example, almost 90% of graphic violence content that we removed or added a warning label to was identified using AI.
 - This shift from reactive to proactive detection is a big change, and it will make Facebook safer for everyone

GDPR

- I also want to talk about privacy
- GDPR was an important moment for our industry
- We did see a decline in monthly actives in Europe, down by about 1mm people as a result
- And at the same time, it was encouraging to see the vast majority of people affirm that they want us to use context, including from websites they visit, to make their ads more relevant and improve their overall product experience

Outlook

Investments

- Looking ahead, we will continue to invest heavily in security and privacy because we have a responsibility to keep people safe
- But, as I've said on past calls, we're investing so much in security that it will significantly impact our profitability
- We're starting to see that this quarter
 - But, in addition to this, we also have a responsibility to keep building services that bring people closer together in new ways as well

Security

- Now, in light of increased investment in security, we could choose to decrease our investment in new product areas, but we're not going to, because that wouldn't be the right way to serve our community and because we run this company for the long term not for the next quarter
 - And Dave will talk about this in a few minutes

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

News Feed

- Now, perhaps one of the most important things we've done this year to bring people closer together is to shift News Feed to encourage connection with friends and family over passive consumption of content
- We've launched multiple changes over the last half to News Feed that encourage more interaction and engagement between people, and we plan to keep launching more like this

Groups and New Parents

- Now, of course, connecting isn't limited to News Feed
- Now, there are more than 200mm people that are members of meaningful groups on Facebook, and these are communities that, upon joining, they become the most important part of your Facebook experience and a big part of your real world social infrastructure
 - These are groups for new parents, for people with rare diseases, for volunteering, for military families deployed to a new base and more

Community and Physical Groups

- We believe there is a community for every one on Facebook
- And these meaningful communities often spend online and offline and bring people together in person
 - We found that every great community has an engaged leader
- But running a group can take a lot of time
- So we have a road map to make this easier
 - That will enable more meaningful groups to get formed, which will help us to find relevant ones to recommend to you, and eventually achieve our five-year goal of helping 1B people be a part of meaningful communities
- Now, since the 1970s, there has been this long decline in people joining physical groups around the world, and that has contributed to a broad feeling of loneliness and isolation
 - But if we can help 1B people be a part of something meaningful, then that can help reverse this trend

Fundraising Tools and Instagram

- Talking about being a part of something meaningful, it's been inspiring to see how people are using our fundraising tools to make a difference
 - Last month, a campaign to raise \$1,500 for undocumented children separated from their families at the border ended up going viral and raising more than \$20mm from more than 0.5mm donors all around the world
- This quarter, we added the ability for pages to create and donate to fundraisers for causes that they care about too
- This quarter, we also reached a milestone with now more than 1B actives on Instagram
- And this is a moment to reflect on how this acquisition has been an amazing success
 - When Instagram joined us the team had only 16 people

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- And since then, Kevin and the team have built Stories, Direct, and now IGTV.
- This has been a story of great innovation and product execution
 - And it's also a story of how effective the integration has been
- We believe Instagram has been able to use Facebook's infrastructure to grow more than twice as quickly as it would have on its own
 - So a big congratulations to the Instagram team and to all the teams across our company that have contributed to this success

Video

IGTV

- I'm really excited about video too
- And this quarter, we launched IGTV
- People are watching less TV, but more video, but most video is not yet optimized for mobile
- IGTV will help solve that problem
- It's designed specifically for mobile and makes watching long-form vertical video from creators easy
 - There's a standalone IGTV app, but you can also watch within the Instagram app, so that means the entire Instagram community has been able to use it from the start

Connect and Start Conversation

- We're also seeing Watch start to grow more quickly on Facebook too
- Our teams are focused on building new experiences that help people connect and start conversation
- We recently rolled out Watch Party to all groups, so you can watch and chat with friends at the same time
- And we're seeing some real traction with some of the original program, from the talk show Red Table Talk, featuring Jada Pinkett Smith, to Skam, an interactive series that started in Norway and features a new style of storytelling where the characters have accounts on Facebook and Instagram, and key parts of the story are told not just through video, but through posts on their pages

Stories

- Stories continue to be a big part of the future of sharing too, and they're growing quickly across WhatsApp, Instagram, Facebook and Messenger
- While we started off just implementing the basic Stories format, we've now moved well beyond it, and have built lots of new features like polls, questions, and collaborative stories and groups and events
 - And we're also making progress developing Stories into a great format for ads
- We've made the most progress here on Instagram, but this quarter, we started testing Stories ads on Facebook too

Private Messaging

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- The other major trend we're seeing is the shift to more private messaging
- There's a lot to build here
- We've been testing payments on WhatsApp in India, and it gives people a really simple way to send money to each other and contribute to greater financial inclusion
- And of the people who have tested this, feedback and usage have been very strong
- All signs point to a lot of people wanting to use this when the government gives us the green light
 - And in the meantime, we've broadened our focus to building this for other countries so we can give more people this ability faster
- Over the next five years, we're focused on building out the business ecosystem around messaging on WhatsApp and Messenger

Strategy

- More broadly, our strategy is to use Facebook's computing infrastructure, business platforms and security systems to serve people across all of our apps
- For example, we made the decision a decade ago to build our own data centers, and we opened our first custom-built data center in 2011
- Today, we have six data centers around the world, and we're working on building eight more
- We're using AI systems in our global community operations team to fight spam, harassment, hate speech, and terrorism across all of our apps to keep people safe
 - And this is incredibly useful for apps like WhatsApp and Instagram as it helps us manage the challenges of hyper-growth there more effectively

Virtual Reality and Goal

- Beyond apps and looking at the next 10 years, we're making a lot of progress with virtual reality
- Our goal is to create that feeling of presence like you're right there with people you care about even if you might be halfway around the world
- Oculus Go is off to a good start, and at \$199, it's going to be how a lot of people experience virtual reality for the first time
- Overall, this is a critical year for Facebook
- We've made progress preventing abuse, forged ahead with new innovation, and are adapting our services to the new trends of messaging, Stories, videos and groups

Closing Remarks

As always, thank you for being a part of this journey, and I'm looking forward to making more progress together

Sheryl Kara Sandberg

Operating Highlights

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

Revenues and Growth

- It was a good second quarter with ad revenue growing 42% y-over-y
- Mobile ad revenue was \$11.9B, a 50% increase y-over-y, making up approximately 91% of total ad revenue
- Our growth, again, was broad-based across regions, marketer segments and verticals

Safe Place and Transparency

- We are working to ensure that Facebook is a safe place for people and businesses
- We've taken strong steps to address a number of issues, including election integrity, fake news and protecting people's information
- One of the most important things we can do to affect change is to increase transparency because transparency leads to greater accountability
- For example, when anyone can see any ad on Facebook, advertisers have to stand behind the ads they run
- Transparency also allows us to get more input from our community and from experts around the world, so that we can find and fix problems
 - We wish we could find everything ourselves, but we never will, so we're building tools to make it easier for people to report issues to us

Advertising

- As Mark mentioned, this quarter, we took major steps to make advertising in pages more transparent
- Now anyone can see all the ads a page is running across Facebook, Instagram, Messenger and Audience Network
- You can also learn more about pages even if they don't advertise
 - You can see when a page was created and if they've changed their name

Political and Issue Ads

- For political and issue ads, we're going even further
- Advertisers placing ads with political content are now required to verify their identity and location
 - These ads will be labeled with a disclosure about who paid for them and saved in a searchable archive
- The vast majority of ads on Facebook are run by legitimate organizations from small businesses looking for new customers to advocacy groups raising money for their causes
- But we've seen that bad actors can misuse our products too, so we're erring on the side of transparency
- We're being intentionally broad in our interpretation of political and issue ads
 - This includes ads for books about politicians and brand campaigns that touch on national issues

Investments in Transparency and Accountability

- Given our commitment to transparency, we think it's important to apply this policy to more ads rather than fewer

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- These steps are just the start
- We'll keep looking for ways to improve, and we hope these tools become standard across the industry
- As we make these investments in transparency and accountability, we remain focused on our key priorities: helping businesses leverage the power of mobile, developing innovative ad products, and making our ads more relevant and effective

Leveraging the Power of Mobile

- First: leveraging the power of mobile
- For businesses, winning on mobile now means winning on video
- Globally, people are creating and watching more video, especially on mobile devices
- According to eMarketer, nearly a quarter of the world's population will watch video on a mobile phone this year
- We see this trend toward video across all of our apps, from people sharing more video with their friends on Facebook, to watching more video from creators on Instagram, to having more video calls on WhatsApp and Messenger

Marketers and M&M's UK

- Marketers are making more video of their own
- We're seeing healthy growth in video ads among all advertiser segments
- M&M's UK recently used mobile-optimized five-second video ads on Facebook and Instagram to introduce M&M's Mix, a bag of three kinds of M&M's in one
- Their campaign worked, driving results not just for their new product but for the brand overall
 - Their sales increased by over 10% and 80% of that came from households that had not bought M&M's in the previous 26 weeks

New Ad Products

New Tools, Ads Animator and Video Creation Kit

- Second: developing new ad products
- We know that creating video can be more difficult for small businesses that have fewer resources, so we've launched new tools on Facebook to help anyone make videos that work well on mobile
- Last quarter, we released Ads Animator, a simple way to create eye-catching video ads using photos and other content that's already on a company's Facebook page
- We're also testing Video Creation Kit, which gives advertisers easy-to-use video templates for different marketing objectives
 - By learning what performs best across our platform, we can help other businesses succeed

Instagram and in Stories

- We're also making it easier to run ads on Instagram and in Stories

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- Ads in Stories are an immersive engaging way for people to interact with businesses
- When online retailer Overstock wanted to gain new customers and increase furniture sales, they ran video ads in Instagram Stories with a shop now button
 - They saw an 18% increase in return on ad spend and a 20% decrease in cost per acquisition
- This quarter, we made it easier for more advertisers to adopt the Stories format
- When an advertiser uploads video in a square or horizontal format for feed, we can automatically transform it into the full-screen vertical format of Stories

Ads more Relevant and Effective

- Third: making our ads more relevant and effective
- We're building new products and improving existing ones to ensure advertisers can reach the right audience
- For example, automatic placements help advertisers get better results by showing ads across our platform wherever they'll perform best and at the lowest cost
- SumUp, a German payment start-up that helps small businesses accept debit and credit cards, switched from manual to automatic placements and increased sales by 34% in one week

Advertisers

- Advertisers of all sizes want to know if their ads are working and how to make them better, but smaller businesses don't always have this capability
- We're changing that
- Last year, we introduced Test and Learn, a way for advertisers to run variations of their ads and measure the results in just a few steps
 - We started with tools for direct response advertisers to figure out what drives conversions

Ads on Brand Perception

- In Q2, we added a way for companies to understand the effect of their ads on brand perception
- We plan to roll this out to all advertisers, big and small, so they can easily experiment with different strategies and find the ones that work best

Closing Remarks

As always, I'm grateful to our teams around the world

Their work over the past several months has helped millions of businesses grow and created new levels of transparency in advertising

I'd also like to thank our partners and the businesses of all sizes who turned to us to reach their customers and give us the feedback that helps make us better

David M. Wehner

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

Financial Highlights

Community Metrics

Daily Active Users and MAUs

- Let's start with our community metrics
- Daily active users on Facebook reached 1.47B, up 11% compared to last year, led by growth in India, Indonesia and the Philippines
 - This number represents approximately 66% of the 2.23B monthly active users in Q2
- MAUs were up 228mm or 11% compared to last year
 - It's worth noting that MAU and DAU in Europe were both down slightly q-over-q due to the GDPR roll out, consistent with the outlook we gave on Q1 call

Family-Wide Audience Metric

- As Mark mentioned, we're also introducing a family-wide audience metric, 2.5B people worldwide used one of our applications in June
 - This is our best estimate of our de-duplicated audience across Facebook, Instagram, Messenger, and WhatsApp
- We believe this number better reflects the size of our community and the fact that many people are using more than one of these services

Facebook MAU

- Note that, for comparison purposes, Facebook MAU does count multiple accounts for a single user when such accounts exist, and we estimate those represent approximately 10% of our Facebook MAU as previously disclosed in the limitation of key metrics section in our SEC filings
 - The family audience metric only counts a single user in these instances

Revenues and Foreign Exchange

- Turning now to the financials; all comparisons are on a y-over-y basis unless otherwise noted
- Q2 total revenue was \$13.2B, up 42% or 38% on a constant currency basis
- Foreign exchange tailwinds contributed approximately \$370mm of revenue in Q2
- Q2 ad revenue was \$13B, up 42% or 38% on a constant currency basis
- In terms of ad revenue by region, Europe and Asia-Pacific both grew fastest at 47% each and benefited from foreign exchange tailwinds
- I'd note that European ad revenue growth decelerated more quickly than other regions and was impacted primarily by reduced currency tailwinds and, to a lesser extent, the roll out of GDPR.

Mobile Ad and Payments and Other Fees Revenues

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- Mobile ad revenue was \$11.9B, up 50%, and represents approximately 91% of ad revenue
- In Q2, the average price per ad increased 17% and the number of ad impressions served across our services increased 21%, driven primarily by ads in feed on Instagram and Facebook
- Payments and other fees revenue was \$193mm, up 23%

Expenses and Tax Rate

- Turning now to expenses; total expenses were \$7.4B, up 50%
- We ended Q2 with over 30,000 full-time employees, up 47% compared to last year
- Operating income was \$5.9B, representing a 44% operating margin
- Our effective tax rate in the quarter was 13%

Net Income and FCF

- Net income was \$5.1B or \$1.74 per share
- CapExs were \$3.5B, driven by investments in data centers, servers, network infrastructure, and office facilities
- In Q2, we generated \$2.8B of FCF and ended the quarter with approximately \$42B in cash and investments
- And, in Q2, we bought back approximately \$3.2B of our Class A common stock

Outlook

Revenues

- Turning now to the revenue outlook; our total revenue growth rate decelerated approximately 7 percentage points in Q2 compared to Q1
- Our total revenue growth rates will continue to decelerate in H2 2018, and we expect our revenue growth rates to decline by high-single digit percentages from prior quarters sequentially in both Q3 and Q4

Currency, Grow and Promote

- There are several factors contributing to that deceleration
- For example, we expect currency to be a slight headwind in H2 vs. the tailwinds we have experienced over the last several quarters
- We plan to grow and promote certain engaging experiences like Stories that currently have lower levels of monetization, and we are also giving people who use our services more choices around data privacy, which may have an impact on our revenue growth

Expenses

- Turning now to expenses; we continue to expect that full-year 2018 total expenses will grow in the range of 50% to 60% compared to last year
- In addition to increases in core product development and infrastructure, this growth is driven by increasing investment in areas like safety and security, AR/VR, marketing, and content acquisition

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

- Looking beyond 2018, we anticipate that total expense growth will exceed revenue growth in 2019

Operating Margins and CapEx

- Over the next several years, we would anticipate that our operating margins will trend towards the mid-30s on a percentage basis
- We expect full-year 2018 CapExs will be approximately \$15B, driven by investments in data centers, servers, network infrastructure, and office facilities
 - We plan to continue to grow CapExs beyond 2018 to support global growth and our ongoing product needs

Tax Rate

- Turning now to tax; at current stock prices, we expect our full-year 2018 tax rate will be in the mid-teens, but that our Q3 tax rate will be 25% to 30% due to a one-time charge related to a recent court ruling in the IRS vs Altera case
- As a reminder, fluctuations in our stock price will impact our tax price

Summary

In summary, our community and business growth remain solid

Our financial strength has enabled us to invest heavily to improve our ability to serve our global community through our family of apps as well as to prepare us for the future

QUESTION AND ANSWER SECTION

<Q - Brian Nowak>: Two. Just the first one on monetization of Facebook core vs. Instagram; can you talk a little bit about how you think about monetization levels and the key drivers currently and, going forward, when we think about ad load, pricing and the importance of ad improvements across the two platforms over the next, call it, year or so?

And the second one on Instagram TV, maybe just talk about how you look at – think about the core consumer offering, how it varies from Facebook Watch and, philosophically, how you think about investing in premium content or sports content across these two products. Thanks.

<A - David M. Wehner>: In terms of Facebook vs. Instagram, they're obviously both contributing to revenue growth. Instagram is growing more quickly and making an increasing contribution to growth. And we've been pleased with how Instagram is growing. Facebook and Instagram are really one ads ecosystem. I think, from a supply perspective, both now from a feed perspective are at similar ad loads. Instagram has more heavy usage of Stories, so that's an area of continued growth opportunity because the effective levels of monetization in Stories are lower.

On the demand side, we see a good traction across both platforms, and we're rolling out more ability for advertisers to leverage ads in Stories with more formats and the like. So that's, again, an important opportunity for growth is just continuing to build out more products on the demand side for Stories.

<A - Mark Elliot Zuckerberg>: And I can take the second part of the question about the – what we're trying to do with IGTV and Watch at the same time. The IGTV product approach is very focused on helping people connect with creators in a mobile-native vertical video format and helping people not only see content that they love from people that they want to follow, but build a community around those creators, which is what we see people are trying to do. And creators now uniquely have the ability to both reach a large audience and connect and engage the community through the social network on Instagram at the same time.

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

With Watch, a lot of what we're trying to do is make it so the video content that's on Facebook and some of the content that we're acquiring through original programming that people can come together with their friends to watch that content through things like Watch Party and engage and build community that way.

So there's a big space here in terms of helping people have real connections and interactions around video. These are two different takes on this. Overall, what you're going to see from us on video is not just try to optimize for overall watch time, but to optimize for building products that help bring people together and help facilitate real interactions between people.

<Q - Eric J. Sheridan>: Maybe going back to the OpEx and your comments, Dave, looking out sort of medium to longer term, just wanted to understand if we can get a little bit more color on some of the drivers of that. How much of it could be video in support of where you want to take the business over the medium and long term vs. things that maybe don't necessarily have a revenue component to them like the security and the protection of the ecosystem that the whole team has been talking about since the end of last year? Thanks so much.

<A - David M. Wehner>: It's going to be a combination of those factors. I would say we're going to continue to invest in core product development and infrastructure. And so, you've seen that already in terms of the ramp that we have in CapExs. We're continuing to build out features and functionality for the community across a wide range of different products, whether it be the ad products that Sheryl talked about or IGTV and the like.

In addition to those core developments, we're also making the significant long-term investments in safety and security. Those investments are in the billions of dollars per year. Those will have a negative impact on margins. We think that's the right thing to do for the business in terms of ensuring the community's safety and security and the durability of the franchise. So those are important investments from an ROI perspective, but they don't have, obviously, immediate translation into revenue dollars.

Secondly, we're continuing to make big investments in innovation. Those, we believe, are attractive long-term investments. The things that I would point to are things like AI as well as our investments in AR and VR. Those are things that will play out – AI in the near-term, but the investments in AR and VR are really about building the next generation of computing, and that's got a longer-term return window. So, attractive investments we believe, but ones that will take longer-term to pay off, and those would have a dilutive effect on margins in the near-term. Those are the two factors that I would point to.

In addition, on the CapEx side, we're continuing to invest heavily on CapExs, first, to just get ahead of user growth and engagement and then also to make sure that we've got the compute available to support the growth of a number of the key drivers of our business around feed ranking and ads ranking. So, I think those are the things that I would point to, all factoring into the margin guidance that I gave.

<Q - Ross Sandler>: You said that the quarter-on-quarter growth rates are going to be high-single digits lower than the prior-year quarter-on-quarter growth rates vs. Q3 and Q4. That would imply around a 20% year-on-year growth rate exiting fourth quarter. So just want to clarify, is that what you actually said? And if so, what's driving this fairly dramatic deceleration in revenue growth?

<A - David M. Wehner>: We grew at 42% in the current quarter and we would expect decel in the high-single digits for the next couple quarters. In terms of what is driving the deceleration, it's a combination of factors, and I think I outlined those in my commentary. First of all, there's the currency, which is going from being a tailwind to being a modest headwind, we expect.

Secondly, we're going to be focusing on growing engaging new experiences like Stories and promoting those. And that's going to have a negative impact on revenue growth. And then, finally, we're giving people who use the services more choice around privacy, and that's coming both in terms of impacts that could be ongoing from things like GDPR as well as other product options that we're providing that could have an impact on revenue growth. So it's a combination of all those factors that is leading to the deceleration of revenue growth in H2.

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

<Q - Douglas T. Anmuth>: A question for Mark. I was hoping you could talk about the company's focus on meaningful social interactions. Several months into some of those changes, do you think behavior on platform has shifted at all? And would you expect the improvements in the experience to ultimately drive a rebound in core Facebook engagement? Thanks.

<A - Mark Elliot Zuckerberg>: We've launched a number of changes that are focused towards trying to encourage more interaction at the expense of some passive consumption on the network. And we found that these have generally encouraged more interaction or positives, so we're going to keep on moving in this direction.

We're doing this for a number of reasons. One is that we just started getting a lot of feedback from people in the community that they wanted Facebook to be more about connecting with people, which is really the core of what it's always been, less so about viral videos or news content and just passive consumption. So that's one.

Another big driver is we've focused on trying to make sure that we understand the effects of using our services on people's well-being. That's important for all companies. And the research there is very clear that when people are using the Internet, and including our services, to interact with other people, that's associated with all the positive elements of well-being that you'd expect: feeling more connected, feeling less lonely, feeling happier, and long-term measures of health but when you're simply using the Internet to passively consume content that isn't necessarily associated with positive improvements to well-being.

So, both because of the feedback that we were getting and the research, we felt like this was really the right direction to go in. We're seeing positive signs in terms of how it's encouraging people to interact more. Of the usage on the platform, we do think that that is the most valuable usage, but that's why we're going in that direction. And everything that we've seen so far suggests to us that we should continue moving in that direction more.

<Q - Heather Bellini>: I was just wondering if you could share with us, as you look ahead over the next 12 to 24 months and you think of assets that you have that you aren't currently monetizing in material ways, which of those do you think about – when you think about kind of layering on the next leg of the stool, if you will, which one of those would you expect us or would you expect to see start to contribute in a more meaningful way over the next couple of years? How would you rank order those assets that are not currently being monetized in a significant way at this point? Thank you.

<A - Sheryl Kara Sandberg>: We started with ads in Facebook, and that was something we have grown and they continue to grow. The ads have expanded quite nicely to Instagram, and Instagram represents a very healthy part of the growth and we expect that to continue as well. When you think about things that are further out, I think you then start talking about our messaging apps.

We are furthest ahead in Messenger, but it's still very early days. We're quite happy with consumer engagement with 1.3B monthly actives on the platform, and we continue to see a lot of organic connections between businesses and consumers on the messaging platform. We now have over 8B messages sent between people and businesses per month, which includes automated messages. We're being very slow and deliberate with monetization. It's still in early days. But I think we've launched some things that people are excited about and interested in like click-to-Messenger ads.

We also have some early nice results we can share from clients. One of them recently was LEGO. They launched a Messenger bot to help with gift recommendations, and they created a click-to-Messenger ads that link to a LEGO bot which helped provide product and gift recommendations.

They reached people over 25 years old in the U.S., UK, France and Germany, and targeted people who are interested in LEGO toys and shopping, and they found a 3.4 times higher return on ad spend for click-to-Messenger ads vs. those that just linked to the LEGO website. And I share that case because it shows what we're excited about. We're excited about a new surface where businesses can interact with consumers, but also really a new functionality.

If you go further out, you would then start thinking about WhatsApp. We are very focused there on the user experience, but we're also focused even earlier stages on growing our business ecosystem. The WhatsApp Business app has launched, and we now have more than 3mm people actively using it to test business solutions. So that's further out, but

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

we think it has potential as well.

<Q - Mark Mahaney>: Two questions, please; a near term one and a long term one. The near term one is can you just comment on what you're seeing in terms of MAU recovery growth trends in Europe? You haven't – you gave us what turned out to be a pretty accurate read into the June quarter, so do you have a read into whether things have based out and started to improve again post GDPR implementation?

And then, I know, Sheryl, you just talked about this, but can I just ask you to just maybe comment a little bit more on Facebook Messenger? I've just seen the ad units there. They seem to be – there seemed like there's been a pickup recently in implementation of ads there that seemed to me to be highly effective and reasonably well targeted. So any learnings just from those, the basic ad units that you put in there beyond the – kind of the business metrics you just reported on? Thank you.

<A - David M. Wehner>: On Europe, yeah, we don't have any update on trends. We had indicated in Q1 that we would expect to see a decline. We're not providing any guidance on MAU and DAU in Europe on this call.

<A - Sheryl Kara Sandberg>: In terms of number two, we have an ad model where we're able to use the targeting capabilities for Facebook. But when we put ads into a new surface, we obviously learn and evolve. So, one example of some of the things that we're excited about, again, are the click-to-Messenger ads. That's something we can put in News Feed in Instagram and Messenger and it both grows the ecosystem and creates a new opportunity for interaction.

We also have inbox ads where we're enabling advertisers to extend their reach to people in Messenger, which is still really early. And we're also in the early days of sponsored messages, which enable businesses to reengage people once a conversation has started. And so, when we think about the format of Messenger, we think about the direct correspondence between a person, either an existing or a potential client or with a business, and we think there are many times in kind of a life cycle of interacting with a business where that's a very attractive opportunity.

<Q - John Blackledge>: Could you discuss your view about the importance of Instagram as a discovery platform for new and/or emerging brands and merchants? And then, over time, as these merchants and brands mature, how do you view Instagram's ability to monetize? And then just a quick one on North American ad revenue; it was a bit lower than we expected in Q2. Don't know if you guys have any color there. Thank you.

<A - Sheryl Kara Sandberg>: On the first, when we think about Instagram, we think we have a great opportunity; 25mm Instagram business profiles, 2mm advertisers. We're growing quite nicely across brand and DR. And with 1B active people on the platform, I think Instagram is definitely both a direct response opportunity but an opportunity for discovery. Part of it's the format. The format is so visually appealing and people are telling stories with pictures, so we see both anecdotally and in the data that this is a great place for people to become aware of a product in the first place. And we see a lot of small businesses really able to do things on the platform.

I'll share a recent example. We just launched a shopping experience that was just expanded in Q2 to all consumers in an additional 45 countries. DefShop is an e-commerce fashion brand in Germany. They were an early tester for IG Shopping. And what they did in that test is tag each article of clothing. They had 56% more website visitors and a 64% increase in sales for tagged products. And I think a lot of those were discovered and purchased right through that advertising funnel.

<A - David M. Wehner>: Just on the North American deceleration in ad revenue growth, kind of consistent with the trends we've seen, so nothing there notable. I would say we're pleased at the growth that we're seeing at the scale at which we're operating. When you look at the deceleration, the one that I called out was really Europe where you saw the currency impact as well as, to a lesser extent, GDPR causing sort of faster deceleration than in the other regions. I would say North America was more kind of within kind of what we're seeing across the rest of the business.

<Q - Justin Post>: The guidance for the deceleration might raise some questions just on Facebook engagement. So just wondering how you're seeing activity within just core Facebook right now? Is it growing at a healthy rate? And then, secondly, you have had a couple of months now with GDPR. Just wondering how you're thinking about how that will impact your ad targeting over the next year. Thank you.

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

<A - David M. Wehner>: We're continuing to see good growth in the Facebook ecosystem with 11% DAU growth. And obviously, we've got broader family growth as well. In terms of, I guess, going to the GDPR question, we've talked about – oh, sorry. Sheryl, were you going to take the GDPR question?

<A - Sheryl Kara Sandberg>: I can talk about GDPR. GDPR has not had a revenue impact, but we also recognize it wasn't fully rolled out this quarter. It was very encouraging for us to see that the vast majority of people affirmed that they want us to use information, including from the websites they visit, to make their ads more relevant. But, as we look further out, we recognize that there's still risk, and we're going to watch closely.

Advertisers are still adapting to the changes, so it's early to know the longer-term impact. And things like GDPR and other privacy changes that may happen from us or may happen with regulation could make ads more relevant. One thing that we know that's not going to change is that advertisers are always looking for the highest ROI opportunity. And what's most important in winning budget is our relative performance in the industry, and we believe we'll continue to do very well on that.

<A - David M. Wehner>: I'll give a little bit more color – sorry. I wanted to give a little bit more color on some of the different regional trends we're seeing on Facebook DAU. U.S. and Canada, sort of consistent with past quarters, has been flat at about 185mm, and we would expect that to continue to bounce around. Europe, we saw the declines that we anticipated from GDPR. And I would say there, really, those impacts were purely due to the GDPR impact, not other engagement trends. So I would point to that. Otherwise, I think feeling good about Europe.

Worldwide, we've got kind of different puts and takes. Indonesia had a SIM card registration requirement that caused a little bit of a headwind in APAC. And then rest of world, we saw some countries come back online like Ethiopia came back online. So some different puts and takes, but overall, still seeing regional growth across all regions with the exception of the U.S./Canada being flat.

<Q - Mark A. May>: Just following up on the comments, Sheryl mentioned that there's really no meaningful impact on GDPR to the ad business, at least as of now. But then, Dave, I think you mentioned that because you're giving people more control over their privacy and data that this is one of the reasons why you're expecting the meaningful decel in H2; so just trying to recognize those two things. Maybe the questions have been too specific around the impact of GDPR and should be more broad around data and privacy? And I guess, ultimately, the question is what impact, if any, these greater controls that you're giving users having on ad revenue growth and monetization? Thanks.

<A - David M. Wehner>: Let me take that. So GDPR didn't have a significant impact in Q2, partially because of its implementation date. So you're just seeing effectively one month of it in terms of revenue. We do think that there will be some modest impact, and I don't want to overplay these factors, but you've got a couple of things going on. You've got the impact of the opt-outs. And while we're very pleased with the vast majority of people opting into the third-party data use, some did not. So that will have a small impact on revenue growth. And then we're seeing some impact from how advertisers are using their own data for targeting. So, again, that will have a modest impact on growth.

And then in addition, we're continuing to focus our product development around putting privacy first and that's going to, we believe, have some impact on revenue growth. So it's really a combination of kind of how we're approaching privacy as well as GDPR and the like. So I think all of those factors together are one of the factors that we're talking about; the other being, obviously, the currency flip.

<Q - Richard Greenfield>: One of the things as you look at, you talked about the growth you're seeing in users overseas or basically everywhere but the U.S. and Canada. But when you look at ARPU, your ARPU outside, even in Europe, is still only a real tiny fraction of where you are in the U.S. and, obviously in Asia and rest of world, an infinitesimal fraction of where you are in the U.S.

How does that factor into as you think about your long-term guidance that you just talked about, especially with margins moving towards the mid-30s, just given how early you are in those non-U.S. markets and how much headroom they have to grow as those ad markets mature. How do you have confidence that you, in that type of deceleration, when you look at how much upside there is in that ARPU?

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

<A - David M. Wehner>: You've got a couple of different factors going on there. You've got the opportunity, I think, for ARPU growth in those regions, and that's going to depend on the mix of countries in those regions and the GDP per capita in those countries as well as the relative size of the ad markets. And that correlates very strongly to our opportunity and our potential ARPU. And I think you've got upside growth potential in the long run in those markets.

As it relates to margin profile, you also just have the factor that you're increasing growth – the increasing mix of the business is shifting towards Asia and towards what are currently lower ARPU markets. And so, while those are very attractive, we believe, to serve both in the near and in the long run, they're going to have a different impact on margin because the cost to support those users relative to the revenue they bring in does have an impact on margins in the medium-term.

<Q - Anthony DiClemente>: I have two; one for Sheryl and one for Mark. Sheryl, in Dave's comments and the comments about the business impact of engagement shifting to Stories vs. feed products, if you could spell out for us I guess the specific reasons why Stories monetization is not as strong as feed today and in the context perhaps of what needs to happen in the future for Stories monetization to rebound to, let's say, parity to where feed is today and sort of get through that negative impact.

And then, for Mark, I think perhaps Heather was getting at this in her question, but the company's investing so much into owned data centers. You talked about that I think in your prepared remarks. Are there ways to improve the return on investment of those investments in data center servers, network infrastructure? And what I'm thinking is in order to perhaps service third-parties to maybe just improve those returns in the way that other tech and Internet companies have in terms of investments in infrastructure. Thank you.

<A - Sheryl Kara Sandberg>: On Stories, we've seen great progress with Stories as a format for people to share on our platforms. We have 400mm people sharing with Instagram Stories, 450mm with WhatsApp Status. Facebook is newer, but we're seeing good progress there. The question is will this monetize at the same rate as News Feed? And we honestly don't know. We'll have to see what happens. There are good reasons to be very optimistic about the monetization. The opportunity, full-screen, authentic, very engaging, different format than feed, gives us an opportunity to grow.

We also don't have all of our advertisers yet creating story ads. So, obviously, as more and more advertisers come in and do that, the more and the better ads we'll have. I think getting that ramp will take a while because Stories is a new format, and we definitely see that it takes a while for advertisers to adopt new formats.

I think one of the other things we feel good about over the long run, not really the short run, is that since we have so many different places where you have Stories formats in Instagram and WhatsApp and Facebook, as volume increases of the opportunity, advertisers get more interested. But we won't know for a while if it's going to monetize at the same rate. We do feel very good about a new and very engaging opportunity for ads.

<A - Mark Elliot Zuckerberg>: And I can quickly answer the second part around data centers. I mean the quick answer is that we're not planning on going in to the cloud services. We're not planning on doing that. We have to build out all this capacity to serve our community. It's a very computationally and resource-intensive set of services that we provide and we need to build that out.

We are very optimistic. I'm very optimistic about AI overall and being able to use more computing resources to be able to crunch more data to be able to rank News Feed and ads and search and friend suggestions, and all the important things that we use our AI systems to do in addition to the integrity and security work. Part of the advance in AI technology now allows us to use more compute to use all the data that's in the system to provide better results, so we certainly plan on doing that.

<Q - Peter C. Stabler>: One for Sheryl and then one for Dave. Sheryl, just on the SMB side, wondering if you could give us any color by region, if possible. And then secondly, on the go-to-market strategy, to what extent is Facebook dependent upon or leveraging resellers vs. small businesses discovering the ad platform on their own? How key is that reseller channel for you on the small business side? And then, for Dave, given that you've given us some kind of relatively specific guidance on the revenue growth decel through the remainder of the year, I'm wondering if you could

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

give us some color on what that embeds from an FX expectation at this point. Thank you very much.

<A - Sheryl Kara Sandberg>: SMBs are very core to our business and, with over 80mm SMB pages that are using Facebook on a monthly basis, we know they're core to theirs. Our 6mm advertisers come from those pages, and so the fact that we have so much room to grow is exciting for us. We don't break this out by region, but we do see very strong SMB participation across the board and around the world, particularly as SMBs come online, the more. So, you can imagine that some of it goes with Internet penetration and Internet use.

In terms of resellers, we think it's a big opportunity. We don't break that out either. But, obviously, some of our ads are sold directly and bought directly through our online interfaces. We also have third-parties that sell our ads and we welcome that as well.

<A - David M. Wehner>: Just on the FX, we're just looking at current rates and just rolling those forward, not predicting what the rates will be, but rather looking at current rates and thus what the impact would be if rates stay the same on H2.

<Q - Brent Thill>: I want to go back to the magnitude of the deceleration. I think many investors are having a hard time reconciling that type of deceleration considering how good the advertiser feedback is on your platform. And I realize you've outlined FX and Stories and the other factors, but is there something that you're hearing now from advertisers that is giving you more confidence that they're seeing something different about what we're all hearing right now? It just seems like the magnitude is beyond anything we've seen, especially across a number of tech names we all cover.

<A - David M. Wehner>: This is consistent – we consistently have seen over last eight quarters constant currency deceleration. So, there's a continuation of this trend. I don't think there's anything beyond that in the factors that I outlined.

I would note we've been benefiting from continued growth across Instagram. Instagram ad load in feed is at the same level as Facebook, so that would be – that's certainly been helpful in our recent quarters. So I think when you look at the factors going forward, I would say we've got the currency impact, we've got some of the impacts around privacy and the like, but we continue to get good advertiser feedback on ROI. We continue to believe we're delivering great ROI for advertisers. So I don't think there's anything from the advertiser perspective that's necessarily playing out differently than expectations. Sheryl can add any color there.

<A - Sheryl Kara Sandberg>: I'd add there. Even at decreasing growth rates, we are still growing and predicting growth at very healthy rates, and that's based on returning for advertisers. We're very focused on helping advertisers meet their ultimate goals, looking at their ROI, looking at the return they get on ringing the cash register, whether that cash register rings online or offline. And we hear from them and we continue to see in our results that we continue to deliver strong results. So we have a lot of opportunity ahead of us. We're going to continue investing in that opportunity. And what we're hearing from advertisers all over the world is that they want to continue to grow and invest with us as well.

<Q - Colin Alan Sebastian>: Just a couple of follow ups for me. First off, Dave, maybe I missed this, but what timeframe are you referring to in terms of getting down to the mid-30s operating margin? And does that outlook assume any meaningful contribution from any of the new areas of innovation that you highlighted on the call? Just trying to figure out how much of that might be more conservatism.

And then, on the near-term trends and the midterm elections in the U.S., given the amount of scrutiny that will exist in your platform, how should we think about your level of preparation on one hand to manage content? And then, on the other hand, is this part of the potential impact on monetization revenue growth in the back half of the year that you're taking into consideration? Thanks.

<A - David M. Wehner>: Let me take a crack at that. So, in terms of the guidance, I've given guidance. This is several years, so more than two but less than many. So it's over a timeframe more than two years is our expectation. And then in terms of does that have any meaningful contribution from areas of innovation, we talked about some of the areas that

Company Name: Facebook
 Company Ticker: FB US
 Date: 2018-07-25
 Event Description: Q2 2018 Earnings Call

Market Cap: 629,818.07
 Current PX: 217.50
 YTD Change(\$): +41.04
 YTD Change(%): +23.257

Bloomberg Estimates - EPS
 Current Quarter: 2.130
 Current Year: 8.551
 Bloomberg Estimates - Sales
 Current Quarter: 14217.526
 Current Year: 56813.978

we're investing in. Obviously, on the safety and security side, those are costs that are layering in that we think are the right thing to do for the business but don't necessarily have a revenue impact. So it certainly takes those into account.

It also takes into account the ongoing investments we're making in the longer-term innovation work, which I don't think will necessarily have any meaningful revenue relative to the size of the business in those timeframes. We're also investing in things like video, Watch and the like, which have the potential to condition tribute on the revenue side, but still relatively small in perspective of the overall business.

<A - Mark Elliot Zuckerberg>: And I can take the question on the midterm elections. So, yes, the short answer is that we're much more confident that we're going to get this right for the elections in the 2018, which include the U.S. midterms, but also the elections in Brazil and upcoming elections in early-2019 in India and the EU. And the reason why we're confident that we can get this right is because there have been several elections since the 2016 ones that have had much better results, including the French presidential election, the German elections, the Alabama special election, and the Mexican election about a month ago.

And in each of these – going back to 2016, we were – we have a very big security team that was focused on security around even the 2016 election and we found hacking and phishing attacks that the Russian government was trying to do, and we notified the right people about those. But 2016 was really the first time that we saw this kind of coordinated information operation. And since then, we've built the playbook out that has included building AI tools to identify thousands of fake accounts and groups and pages that violate the policies. It's included growing the security and content review teams to 20,000 people to be able to handle the volume of work that we need to do. And it includes a lot of the transparency work around advertising in general, but also the political and issue ads archive and verifying all advertisers who are trying to run political and issue ads.

There are a number of other things that we're doing too, including creating an external program for independent academics to study how the impact of social media and how foreign governments try to interfere in elections. And that will have a longer-term impact as well. But the short answer here is we've been very focused on this. 2018 is a big year. And because of the successful results that we've seen in a number of elections recently, we feel like our road map and our level of preparation is much higher now than it has been. And we feel relatively confident going into these elections.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP.

© COPYRIGHT 2018, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.