

Trends: FB has been feeling

## MARK ZUCKERBERG

- +2.6B ppl using one of the FB apps, up from 2.5B last Q.
- On average +2B ppl use at least one of FB's services daily.
- Way people connect is shifting to private messaging & stories.
- Seeing video grow dramatically across ecosystem.
  - ↳ Watch is growing quickly but still well behind Youtube. Still working to make it a unique people-centric experience.
- Continue to face increased safety & security threats.

### Messaging & Stories

- People feel more comfortable being themselves when they know their content will only be seen by a smaller group & when their content won't stick around forever.
- Messaging & stories make up the vast majority of growth in sharing that FB is seeing.
- Leading Messaging in most countries, but biggest competitor by far is iMessage (was included in risk factors as competition).
  - ↳ Especially in the US where iPhone is strong.
  - ↳ When did iMessage start?
    - ↳ In countries where there's more competition between iOS & Android like much of Europe, people tend to prefer FB services.
- WhatsApp is preferred b/c of its stronger record on privacy (end-to-end encrypted).
- Roadmap focuses on continuing to make WhatsApp & Messenger even simpler, faster & adding basic utility features like payments.
  - ↳ Making services faster & simple → people communicate more.
  - ↳ Will continue to make services private & secure → competitive advantage.
- Business side of Messaging:
  - ↳ Step 1: enable people to connect organically with businesses
  - ↳ Step 2: Give businesses additional paid tools to increase those interactions.
  - ↳ Well into Step 1 with WhatsApp (13M accounts on WhatsApp business).
  - ↳ Will begin step 2 with a couple of products, paid messaging & ads & stories.
  - ↳ Payments will make each of these services more useful even though FB doesn't plan to profit from them directly.
- Stories → better positioned → lead almost every country.
  - ↳ Was accepted quickly in IG & WA → slower on FB.
  - ↳ Early in developing, ad product for stories → low monetization
  - ↳ Looks like stories will be a bigger medium than feed has been.
  - ↳ Feels will drive the majority of FB growth over the next couple of years until stories become even a bigger driver.
- FB app overall in generally stable → may be close to saturated in developed countries while growing quickly in developing countries.
- Roadmap priorities:
  - Stories
  - Video
  - Communities & Groups.
- Marketplace is now used by 800M people & is emerging as one of the most popular places to buy vehicles online.
- FB will roll out dating across the world, has been used for fundraising.
- Instagram focused more on helping explore interest vs. community.
  - ↳ Includes new shopping experiences & building out explore.
  - ↳ Explore is 25% of the time people spend on IG → still haven't built ad experience.

### VIDEO

- As video grew, hampered meaningful social interactions.
  - ↳ Solution is separate video experience (Watch & IGTV).
- ↳ Watch has grown 3x in the last few months in the US alone.
- ↳ IGTV is early in its development.
- ↳ Both still well behind Youtube which is primary competitor but growing quickly.
- ↳ Video monetizes less per minute.
  - ↳ As video grows, it will displace some other services where FB makes more money.

### Safety & Security

- Last month, FB had a serious security issue. Investigate what this is about.

In September 2018, we announced our discovery of a third-party cyber-attack that exploited a vulnerability in Facebook's code to steal user access tokens, which were then used to access certain profile information from approximately 29 million user accounts on Facebook.

- FB is working closer with gov't & is getting better at identifying threats but still has a long way to go.

### AR/VR

- Portal for video presence
- Oculus Quest: all-in-one VR experience that delivers Rift-like qualities with no wires attached
- ↳ What is Portal? Oculus vs competition?
- ↳ How advanced / adopted is VR at the moment?

## SHERYL SANDBERG

- ↳ 10M advertisers active across FB, IG & other services.
- Primary way advertisers are reaching ppl on their services is through FB News Feed & IG feed.
- Feed ads represent majority of revenue growth & majority of opportunities for marketers to generate ROI.
- Building on strength of ads in IG's stories, rolled ads in FB stories & announced plans to introduce ads in WhatsApp status next year.
- Improved how ads from News Feed look on stories → make it easier for advertisers to optimize their campaigns.
- Early but exploring how they can help advertisers reach ppl in Messenger through sponsored messages & inbox ads.
- WhatsApp → business model app for Android.
  - ↳ Launched WhatsApp Business API to help larger companies send useful information.
  - ↳ Paid messaging model will ensure companies are selective about what they send & don't clutter people's chats.
  - ↳ Ppl will be able to block any business → determined to maintain the simple private user experience.
- Started allowing advertisers extend their new feed ads to Marketplace.
- Introduced way for advertisers to buy video placement in Watch from a selection of the most engaging publishers, choose specific content categories & pay only for ads that are watched to the end.
- Completed the shutdown of Partner Categories (?) & tightened our standards for custom audiences.
- Added more tools for advertisers to see where their ads might appear on audience network, instant articles, & in-stream placements like Watch.
  - ↳ They can block their ads from running in videos or articles from certain publishers or categories of content & review all of their placements at the end of each campaign.
- Expanded campaign budget optimization so advertisers can now set a single budget & FB system automatically finds the best opportunities across each of those segments.

## DAVID WEHNER

- 1.4B DAUs in FB → 66% of the 2.17B MAU in Q3.
- Growth led by India, Indonesia & Philippines.
- Q3 2018 community metrics reflect update to calculation methodology removing a small percentage of accounts. Look up.
  - ↳ Change will modestly impact YoY user-growth rates until they lap next year.
- Outlook:
  - ↳ Revenue growth rate will decelerate.
    - ↳ Expect more impression growth to continue to come from product services & geographies that monetize at lower rates.
    - ↳ Seeing some impact from data privacy initiatives in pricing growth.
    - ↳ Product efforts on growth of stories (more prominent placement on FB) → will displace some ad impression opportunities.
  - ↳ Expenses → S&SS: growth
- Outlook 2019:
  - ↳ Expenses: +40-50%
  - ↳ Capex \$1B-\$20B → datacenter build strategy

## QUESTIONS

- ① Friction points you are trying to solve in the creative/selling side with respect to videos & stories.
  - The format of the ad has to match consumer experience (right ad for News Feed will not be the same for an ad in watch)
    - ↳ Making new formats of ads is hard & expensive.
    - ⇒ That is why FB is working on tools to make the format easier.
  - Same targeting & measurement systems work.
- ② Should operating margin be stable beyond 2019? Guidance of OpEx seems to point towards a mid-30s range margin which was previously stated in guidance as a long-term margin.
  - Expect biggest change in margin structure to happen in 2019 and for it to moderate from there.
  - Hard to be prescriptive about 2020 & beyond but biggest change will be 2019.
- ③ Challenges for monetization with Stories/experience with IIS.
  - Stories have high engagement but FB has to understand general behavior to determine correct format.
    - ↳ Length, how quickly do people scroll → see how many ad opportunities & how effective they are.
    - ⇒ Business depends on amounts of ads that can be shown, effectiveness of those ads → drives ROI & ultimately the price.
- ④ How optimistic are you about building a meaningful business around private messaging?
  - What they're doing on Messenger & WhatsApp is making sure the business can connect with people & then in the early stages of testing messaging.
  - Focused on consumer experience & figuring out over time.
  - More connected than ppl realize → nice traction with click-to-Messenger ads.
- ⑤ Security → One-off or recurring? Is there some point where you might be able to get better efficiencies also relative to others in the industry who are making investments that don't seem quite as sizable as Facebook?
  - There's no silver bullet where you do the thing & then you're done.
  - Were behind a couple of years ago → started a 3-year roadmap.
    - ↳ End of 2019 to get systems to the levels they think they should be at.
    - ⇒ Building AI systems that can flag content that might be problematic to a much larger security & review team that can manage the larger volume of stuff that FB tools are flagging to them.
  - Are not going to be perfect → 12B ppl communicating on this server.
    - ↳ There are going to be things that FB systems miss no matter how well-tuned they are.
  - Will continue to invest more but to some degree the last few years & the next year are probably going to be the biggest growth in investment in the security efforts that we'll see.
- ⑥ How far ahead should we think about you guys building out capacity (CapEx growth)?
  - FB is investing ahead of user growth but also making investments to support core growth (better ranking takes more computing power).