

Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Brian Nowak, Analyst
- Dave Wehner, CFO
- Sheryl Sandberg, COO

Presentation

Brian Nowak {BIO 16819013 <GO>}

Good afternoon, everyone. Welcome to our luncheon keynote today. We are absolutely thrilled to have Sheryl Sandberg and Dave Wehner with us from Facebook. We have a series of disclosures I have to read first. So we'll get through those. But I'll be able to do it while you're opening up all your wrappers.

So please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear in the handout available in the registration area and on the Morgan Stanley public website. Some of the statements that Sheryl and Dave will make today may be considered forward-looking. These statements involve a number of material risks and uncertainties that could cause actual results to differ materially. Any forward-looking statements that Sheryl or Dave make are based on assumptions as of today. And Facebook undertakes no obligation to update them at all. Please refer to Facebook's Form 10-K for a discussion of the risk factors that may affect its results.

Sheryl Sandberg is the COO of Facebook. She's been there since 2008. Dave joined Facebook in November 2012 and has served as Facebook CFO since June of 2014. It's the fourth time we've had Facebook at the Morgan Stanley TMT Conference. And we are so delighted to have you here. Thank you. So very much for coming. We really appreciate it.

Sheryl Sandberg {BIO 15339456 <GO>}

Thank you for having us. You all have been good partners to us through our IPO and beyond. So we're grateful to be here.

Questions And Answers

A - Brian Nowak {BIO 16819013 <GO>}

Thanks. So I have a series of questions, a lot of topics to cover. There's always a lot going on with Facebook. So I wanted to talk a little bit about the real drivers of the

business. You had another great year in 2016, with meaningful revenue growth, very good community growth, I think the fastest -- the biggest DAU growth you've had since you're a public company. How have the drivers of the core business evolved over the years. And as you look ahead, Sheryl, would you talk about the big drivers of monetization you see over the next couple years?

A - Sheryl Sandberg {BIO 15339456 <GO>}

The drivers of our business are really the same three drivers we've had from the beginning. And I think continue out to the future, which are: users, how many people use our services; engagement, how engaged are they, how much time do they spend with us, what do they do; and then on the advertising front, the transition to mobile. So as you said, the last quarter we reported our fastest user growth we've had since our IPO five years ago. There are now 1.86 billion people using Facebook every month.

And what's probably more important than that, is the engagement. When I joined Facebook there were about 70 million users. And 50% came back every day. And that is something the Company was very focused on and very proud of. So everyone ran around saying, 50% come back every day. But you know, I was hired to try and think ahead. And I had a view that we should only release metrics that were likely to go in the right direction. And we all know your early adopters are often your most ardent adopters. So I figured as we went from 70 million to 100 million to 200 million, that number 50% would go down. So I ran around early Facebook saying, everyone, stop saying 50% come back a day.

Everyone completely ignored me, because it's Facebook and they don't care at all who they work for or who you are. And they kept saying 50% come back every day. And last quarter, when we reported 1.86 billion, we had 66% of our users coming back every day.

So as we've grown, that number has actually gone up, which is something that I was really surprised by. But something I think we're really grateful for because it means we're part of people's daily lives.

Then, as we have so many people using Facebook as we have this increasing and continued engagement, that gives us the ad opportunity. And the driver of our ad opportunity is really about the shift to mobile. And people have made that shift, right? Everyone here has a phone. Who here checks your phone first thing in the morning within ten minutes of waking up? Who here checks your phone within ten minutes before you go to sleep? And many times in the day.

So the consumer shift to mobile has happened. The driver of our growth is helping the advertiser shift to mobile happen. And it's an incredibly powerful device. So the phone every single person has in their pocket or their purse, has 100,000 times the computing power of the computer that sent the first man to the moon, in 1969, which I like to remind people at Facebook is not really that long ago, because it's the year I was born. But we have a Super Bowl on that device, on mobile in the US every single

day. And so, our job is to get advertisers to make the shift, much as consumers have made the shift.

A - Dave Wehner {BIO 2419389 <GO>}

Yes. And I would just add that we're just building more and more products to make it easier for advertisers to find the audience that they want to find on Facebook. And we're doing that with a lot of integrated products. Custom Audiences has been, continues to be a big driver of growth. A good example there is General Motors, who used custom audiences to target owners of vehicles that had On Star in them. But they weren't currently subscribers of On Star. And they were able to then target, they were able to take their data, bring it to Facebook, target those potential subscribers on Facebook. And they were able to even get down to granular, who had been a previous subscriber and had fallen off, who was untapped, hadn't been a subscriber before. And with that, launched a very specific campaign using creative, that targeted different kinds of users with video and with that see a 7% lift in subscribers for On Star. So it was a very effective campaign.

And we're continuing to innovate in that way, for advertisers across a broad swath of different products.

A - Sheryl Sandberg {BIO 15339456 <GO>}

There's no other platform on which you can have a Super Bowl and get to targeting your current subscribers to a service differently from future subscribers, differently from people who look like your current subscribers. But it's on us. And we have a lot of hard work ahead of us, to help advertisers make that shift. Because it's definitely the case that consumers are ahead of marketers there.

A - Brian Nowak {BIO 16819013 <GO>}

And the audience is there, people are checking their phones in the morning, they're checking before they go to bed. And Dave, engagement often is a hot button topic among investors. I guess I'd be curious to hear if you have any update on engagement, or time spent across the platform if we think about Facebook core, Instagram. And Messenger. And kind of where that stands now?

A - Dave Wehner {BIO 2419389 <GO>}

Yes. Well I'd start with just daily active users on Facebook. That continues to grow very nicely. So you alluded to this in your introductory comments. But we added 189 million DAU year-over-year. So we're continuing to see really strong growth in just core engaged users on Facebook itself. And we're seeing that across the globe. It's in the US, it's also in developing markets. So you have markets like India, Indonesia, Brazil, growing very nicely. And that's driven off of us really focusing on providing the best possible experiences across all different platforms, including Android, which has been very important. It's working with partners, with Internet.org, it's working also with other carriers who are offering more free promotional data plans.

So it's really strong engagement growth in terms of daily active users. And then on the time spent per DAU which is another metric that we work on and track, we're

seeing good, solid growth across the Facebook family and on Facebook in particular. So we're pleased with that. And Instagram also continuing to grow very nicely especially with ranked feed [ph].

The drivers of that, Instagram ranking the feed has been helpful. And for Facebook itself, video continues to be a very big driver of engagement for Facebook, which is making the content richer. It's been a continuing migration over time, from text to photos to video. And with that has come time-spent growth. And so, we're focused on that. And we've got obviously a team dedicated to driving better engagement on Facebook. And it's paying off.

A - Brian Nowak {BIO 16819013 <GO>}

Great. And the engagement continues to be strong. And Sheryl, you mentioned how one of the missions is to really bring more advertisers on the platform and help them understand how to spend. You recently said there are 65 million businesses with pages on Facebook, 5 million using Instagram with business profiles. I guess I'd be curious to know, where are you in terms of active advertisers. And as you step back right now, what are the biggest challenges you see to bringing more SMBs on the platform to get them spending dollars?

A - Sheryl Sandberg {BIO 15339456 <GO>}

I think SMBs are one of the core competitive advantages we have, because it is incredibly hard to get SMBs online. A third of small businesses in the US, the most advanced market, have no online presence at all, not even a web page. And it's even harder to have a mobile app. And to get people to use your mobile app. And so, one of the things I think that's most core to the opportunity we face, is how many small businesses use Facebook.

And the reason they use Facebook is because they use it as people. And then they see other businesses. And that's how really, without any direct marketing effort on our part, 65 million small businesses have business pages that are active on a monthly basis around the world. And we have 5 million Instagram business profiles.

And so then, the question is, how do we upsell them to becoming advertisers? And if anyone's ever -- which I have -- you know, driven around with a Yellow Page sales force, what you realize is that small businesses get a lot of hand holding to make business purchases. The Yellow Page salesperson really will walk them through it. And so, our early value proposition is, do you want to become a Facebook advertiser? That sounds hard, particularly if we're going to ask you to do it yourself online.

But when we say, do you want to spend \$3 to boost that post, that's easy. And that makes you an advertiser. And as we've gotten better at making more simplified ad products, we've onboarded more advertisers. And today we have 4 million companies advertising on Facebook and 500,000 advertising on Instagram.

The other opportunity we have. And I think this is a really big one, is to take the kind of tools and targeting and creative tools that only large companies really have access to. And make them available to everyone. 3 million small businesses have uploaded a video to Facebook. That's a pretty incredible number. Some of that is organic. Most of that's organic, some of that's paid. But there's no way even a million businesses have ever produced and placed a TV ad, ever.

And so, the fact that everyone has these incredibly powerful phones, where they can just upload a video and much as we can ask you to boost your post, you can send just a few dollars to boost that, that gives us a really big on-ramp.

I'll share a local example. There's a company called Tree Hut, they make nature-inspired watches. They're based in San Francisco. And they used our Dynamic Ads to target people with specific ads based on products people looked at on their website. They then used our Custom Audiences, to use their e-mail list so we could target their current customers. And then our Look-Alike Audience product to create a group of customers they could serve those ads to who had similar characteristics to their current customers. There's nowhere else small businesses have access to that kind of targeting, that kind of creativity. They used our Shop Now button for the five days leading up to Black Friday and they had a three-time return on ad sales.

And I know there's a lot of thought right now about the state of our nation, the state of economic growth around the world. Small businesses aren't just core to our business, they are core to economic growth. 63% of job growth in the United States comes from small businesses, more than 40% around the world. And we see that in our clients.

So Tree Hut, since they started advertising on Facebook, has hired seven people. So at every level, from our mission to connect people to growing our own business, to what we think of as a responsibility to play our part in economic growth around the world, small businesses are very key to what we focus on.

A - Brian Nowak {BIO 16819013 <GO>}

Understood. Whether you're a small business or a big-branded advertiser, it really seems like measurement and efficacy of the spend continues to be a hot button topic that's coming up in the press a lot. So let me hear about, what steps is Facebook taking through partnerships, improving the measurement, improving verification, to ensure that the advertisers are really getting the best bang for their buck?

A - Sheryl Sandberg {BIO 15339456 <GO>}

You're absolutely right that this has been in the press a lot. And it's really core. Because if our goal is to grow our clients' business, to ring the cash register, gross sales, the only way they know that their ads are effective is if we have the right measurements. We found a mistake last August in one of our video metrics. It wasn't a billable metric. But it's still something we take really seriously. So we really did a pretty thorough review of all of our metrics. And we updated a lot of them.

And now, we're working hard to make sure we stay at the forefront of what measurement is. We're very focused on third-party measurement. We know advertisers want it. It enables other people to grade our homework. And now, you can either verify or measure all of the Facebook ad impressions you get through third parties.

We've set up a measurement council. So we've brought measurement experts from our clients and agencies in-house. So that they can -- not in-house like hiring them, in-house on regular meetings -- so that they can give us real advice but remain third parties with that perspective. We also set up a Measurement FYI channel, which is like our Newsfeed FYI, because our metrics are going to continue to evolve. What you should expect from us are continuing updates to our metrics, because in our space the metrics are so new and the products are so new, we'll continue to do better and better.

One thing that I think is really worth this audience thinking about, though, is what are we measuring in the ad space? The advertising industry, for a very long time. And still today, focuses on proxy metrics. You know, how many people saw an ad, how they feel about the ad, how many people watched a video all the way through? Those matter. But they matter because they are the best indications companies had for a really long time of how effective those ads were. What really matters is going all the way through from the ad to the sale, whether it's online, offline, whether it's a car driving off a lot or a bottle of mouthwash moving off a shelf.

And so, where we're really focused is helping people get to outcomes measurements. We're focusing more and more of our work, our product work, with our advertisers on helping people pick the right outcomes. Do you want to sell a product? Do you want to acquire a new customer? Do you want to measure your conversion?

I think the whole industry will be improved if we can use the power of technology, which we now have, to measure all the way through the funnel.

A - Brian Nowak {BIO 16819013 <GO>}

I thought it was interesting on the last earnings call, you talked about how one of your ways to ensure that the ad products are as relevant as possible is to focus on vertical specific offerings, kind of honing in on what that vertical needs. So I guess, can you give us a couple examples of verticals where you've had success like that? And as you span across the many different verticals at advertisers, where do you still see the biggest opportunities for improvement?

A - Sheryl Sandberg {BIO 15339456 <GO>}

So we'd like our advertising products to work in all verticals. And our growth has been very broad-based across verticals, across regions, across large and small advertisers. Our top verticals have been e-commerce, CPG, retail, entertainment. And media and gaming. And we build specific products for those. I think we've had particular success in our Dynamic Ads product, which really helps you target the

right product. And our goal is of course to show the right product to the right person at the right time.

We are now sending those products to other verticals where we haven't done as well. So travel. Our new dynamic ads for travel let you target ads to people based on destinations and dates that we think you're interested in based on your behavior.

A - Dave Wehner {BIO 2419389 <GO>}

Yes, I mean. So I think we've been hugely successful in the e-commerce space, as Sheryl mentioned. But on the travel front that is an area that we're focused on. And I think there's other opportunities as well if you just look at the pool of advertising dollars out there broadly, in areas like finance, where we have a relatively low penetration. So I think the success that we've had in e-commerce with dynamic ads I think can translate into other areas, as well.

A - Brian Nowak {BIO 16819013 <GO>}

And Dave, to stay on the way the platform could evolve, video seems to be an increasing area of focus just based on the comments on the Fourth Quarter call. You mentioned earlier, driving a lot of the engagement things. So I guess as you -- one, as you think about investing in video, help us better understand the type of product, the type of video content you're looking to bring to the platform. Then, can you talk at all about the structure of the investment? Do you see it as a revenue share? Do you see licensing arrangements? Just how do you see the content evolving on a video perspective?

A - Dave Wehner {BIO 2419389 <GO>}

Sure. Let's just start with kind of originally what the evolution was, which was, how do we just bring richer content to Facebook going from text, to photos, to video? We made a decision early on to have autoplay video in feed. And that drove a lot of engagement. And so, our focus is on, how do we take that -- how do we promote sharing a video, how do we bring more people to Facebook to share, whether they be people or small businesses, or professional content providers or celebrities? And so, what we've focused on, is innovating in product. And we've launched Facebook Live, we've got 360 videos, we've got formats like Stories on Instagram, where video is an excellent format.

So overall we've geared a lot of our product development and innovation around how do we make our products better with video. Then, we're also looking at, how do we expand the type of video that gets shared on Facebook? And one of the ways that we're looking at doing that, is through providing incentives from a business model perspective, for professional content providers to bring content to Facebook. And we're doing that via revenue share.

Now, we are kick starting that ecosystem with some experimental budgets to show content creators about what can be possible on Facebook. So we're not looking to build a massive studio. But we're looking to sort of kick start that ecosystem and head towards a self-sustaining revenue share model. And we're going to be doing

that from a revenue perspective, with our Ad Break product, which is effectively a mid-roll type of ad product, which should work for longer-form content than what is currently on Facebook today. Now, that's not super-long-form content. But it's not 10 second, 15-second content. It's longer than that.

So all of these things are early. We'll have to see how they develop. But we hope to use some budget to get things started. But that's the focus is to get to a good revenue share model with content providers.

A - Brian Nowak {BIO 16819013 <GO>}

Revenue share with the attention to content, mid-roll ads kind of coming, one last question on the core business, Dave, is around ad load. You made some comments over the last year or so, around kind of the thoughts on ad load on the core Facebook product. Talk to us about how you think about ad load. And also can you help us put perspective around pricing and kind of other drivers of the revenue, just beyond core ad load?

A - Dave Wehner {BIO 2419389 <GO>}

Sure. Ad load, as I've kind of said in the past, there's sort of the -- there's both the supply side of our ecosystem and the demand side. The demand side is about, how do we make great ad products for advertisers to bring more of their dollars to Facebook versus other places. So we're doing a lot of innovation there. And then on the supply side, there is users, there's time spent, there's ad load. So those are the three kind of drivers on that side.

Ad load has been a key factor in driving growth. It's a balance factor with these other factors. But it's been a key factor in driving growth over the last several years. And one of the things that we believe is that ad load does not have as much room to grow necessarily going forward, as we get to mid-2017 and beyond. And for that reason, we've been pretty transparent about that for the last few quarters, about our expectation that ad load won't grow as quickly in the future.

Now, when we have constrained supply growth due to any factor, we'll see prices go up. That's just the normal supply-demand mechanism in our auction system. So yes, price will offset some of that. But ad load is a factor that's been driving growth. So we think as that becomes a less significant factor going forward, our overall revenue growth rates are going to come down.

Now, not surprising, given we've been growing at like a 50% compounded growth rate for the last several years. So I don't think it's shocking that that would happen. But it's one of the dynamics that's coming into play here.

A - Brian Nowak {BIO 16819013 <GO>}

Understood. Sheryl, moving to Instagram, off of the core, it seems like Instagram monetization is coming at a relatively measured pace, as you explore the right ad products, continue to innovate the overall offering. I guess I'd be curious to hear,

where are you now in the monetization of Instagram relative to mother ship Facebook?

A - Sheryl Sandberg {BIO 15339456 <GO>}

We're pretty excited about Instagram's monetization path. Facebook and Instagram are we think by far the two most important mobile ad platforms out there. And there are kind of two parts to the Instagram ad platform. There's the consumer experience. And there's the infrastructure of the ads.

So on a consumer experience, Instagram benefits from the increasing visualization of the mobile experience. You know, when you think about what everyone here was doing on your phone, four years ago it was text. You know, even two years ago, how many people were really taking videos? How much were videos buffering? It was harder. But as things have gotten more visual, as the photo, the ability to deliver high-res photos increases the ability to deliver video, the visualization of Instagram is obviously what's driven its growth. And that's a really great opportunity for marketers. Because being able to tell your story visually is something marketers have always loved. And so being able to do it on Instagram was a unique consumer experience.

What that's sitting on top of, is the Facebook Ad System and that's a pretty unique opportunity for us. So the reason Instagram was able to get to 500,000 advertisers this quickly is, we have 4 million at Facebook. And when you come in through our ad flow, whether you're working with a direct representative or you're buying online, we are able to sell you Facebook and Instagram and the Audience Network, with one purchase. We're using the same targeting capabilities. We're using the same measurement capabilities. Those things took us a really long time to build up at Facebook. But we can plug them into Instagram and it'll take time. But one day we will do the same with our other apps where we have time and attention.

And when you see that, what happens for marketers is, you're able to extend your reach. So Progressive Insurance has always been a pretty active advertiser with us. They run those pretty funny ads, if anyone's seen them, with the character, Flo. They ran an ad for us on -- talking about how to get a quote. And they did the A/B test of running only on Facebook. And then running on Facebook, Instagram and the Audience Network, which was our third-party ad product. And the conversion more than doubled by adding in Instagram and the Audience Network.

And so, that shows that even with the size of Facebook we are able to provide a lot of incremental value. And make it highly-scalable.

Instagram is exciting not just because of the format and the creativity and our ad system. But really the engagement we're seeing. We rolled out Instagram Stories just five months ago. And people love it. I love it, the feedback is great from people. And we already have 150 million people using the product. And we just started testing in the last quarter advertising. We've been working with just 30 global advertisers. But the feedback we're hearing both from advertisers and consumers is great. So we

think the increased engagement, particularly around Stories, means Instagram has pretty broad runway and a pretty clear path to how we execute against it.

A - Brian Nowak {BIO 16819013 <GO>}

Understood. Now, Stories is the latest innovation. It's great for putting together people's daily lives, not [ph] what they're up to.

Connecting the world is a very big goal. If you step back, I'd be curious to hear how you plan on reaching your next 100 million users, or your next billion users. And is there anything you can share with us about differences in the way people in emerging markets use the product? And how does that impact the ability to monetize them in advertising?

A - Sheryl Sandberg {BIO 15339456 <GO>}

We've definitely thought a lot about this, because our mission is to connect the world. And even at 1.86 billion there's 4 billion people who aren't even online. They're not accessible to data. And so, we know that their experience is going to be different. The next billion people who come online are going to have smaller screens, lower bandwidth. They're going to likely speak languages that aren't really that well-supported online, right now. And so, we know there's a lot of work to do.

We also know that our product development has to take that into account. Mark started something a while ago called 2G Tuesdays internally. So for one hour on Tuesdays, a lot of our engineering and product folks will use a 2G phone. If you use Facebook on a 2G phone, it is a terrible experience. It loads so slowly, right? It's so data-heavy. So video-heavy. So photo-heavy. And it's those type of product development moves that got us to Facebook Lite. Facebook Lite is fast. It works with low bandwidth. And we now have 200 million people using it. And importantly, having a much better experience than they would be having.

We take the same approach to our video, to our advertising products. So video. Video has been great, as we've said for advertising, it's part of what's really growing on Facebook. Video does not work for a lot of the world. And for the next billion people coming online. So our ads engineers created Slideshow. Slideshow is a photo product that just loads and scrolls through photos really quickly. So you get a video-like experience using -- the video is five times more bandwidth than Slideshow.

And so, we see local advertisers all over the world who have never used video, doing Slideshow ad campaigns. But we also see global CPG companies running the same campaign globally. But targeting high-bandwidth phones with video and low-bandwidth phones with slideshow.

We've also thought a lot about how we get the next billion online. The people who aren't connected to data at all. And at its core, this is really an economic challenge. The World Bank puts global poverty at \$1.90 a day, 10% of the world lives below that line. The implicit cost of Facebook data for the average US user, for everyone in this

room, is \$1 a day. So that means that the developed world is -- the developing world is living on half of what we spend on just Facebook data. So the economic challenge is big.

So one of the things we've done, we've done a partnership in 60 countries with carriers to provide Free Basics. And Free Basics is a way for people who otherwise couldn't afford it, to connect to data. We give them a platform of different services. We always include Facebook. We always include information on maternal health and child health, often the first time they get it. We include things like job postings, things that will really help them. And what's interesting is, a lot of the people who are coming online are not switching from doing things offline, to online. They're doing them for the first time. These are people for whom they've never banked. And now they can bank -- who don't have access to even basic maternal healthcare, who now have access. And so, we've worked to provide Free Basics all over the world.

We're also investing in the technology. Out of that 4 billion, 1.6 billion actually have a technological challenge where they're not living in areas where they can connect to data. We have our Aquila airplane, which we've now done some test flights on successfully. It has the wingspan of a 737. It weighs as little as a small car. And it uses the power of three hair dryers.

A - Brian Nowak {BIO 16819013 <GO>}

Right, it's amazing.

A - Sheryl Sandberg {BIO 15339456 <GO>}

You know, is it there? Of course not. But we're having some early success. And we're prepared because it serves our mission and we think it's important in the long run for our business to really invest behind getting more people online.

A - Dave Wehner {BIO 2419389 <GO>}

Brian, I would touch on the fact that there is a real opportunity from a business perspective in these markets, certainly if you take a long-term view like we do. But even in the nearer term, I mean, in 2016, we had \$4 billion revenue from Asia-Pacific, \$2.5 billion from the rest-of-world. And about half of the Asia-Pacific revenue is what you would characterize as developing, emerging market. And all of rest-of-world is what you'd characterize as emerging markets. So there's real -- we've got billion-dollar-plus businesses in these developing markets.

So we think there's a real opportunity. If you were in 1995 saying the biggest companies 20 years from now, half of them would be in China in the Internet, you wouldn't have thought that. So we take a long-term view. We think there's a big opportunity across the globe to provide value and also to build a good business.

A - Brian Nowak {BIO 16819013 <GO>}

One of the other platforms you have that also has a billion users, Messenger. Seems like you could build a pretty good business off of that, as well. We know that the

messaging apps drive a lot of frequency and drive highly dealing [ph] engagement. At least, we think. Dave, could you just give us an update on the monetization potential. And how you're thinking about cadence of monetization for Messenger, learnings from the bots. And just kind of where we are, the Messenger potential?

A - Dave Wehner {BIO 2419389 <GO>}

Sure. So I think we've got feed products now. We feel like we know how to monetize feed products today, whether it's Facebook or Instagram. And Sheryl talked about the great leverage we have with being able to bring ads from Facebook to Instagram. With Messenger and with WhatsApp, we're working through the phases that Mark has talked about. First we focused on growing the user base. And there we have over a billion users on both of those platforms. So I think we feel like we've done really well in terms of success there.

Second is, how do we make it an engaging platform for businesses and consumers to interact? And we think we're making real progress. Thoughts is a good example of that. Activision. And I think I saw Bobby in the audience at some point, I know he's on up next -- you know, they launched a Messenger bot as part of their Call of Duty game. And you could interact with one of the characters in Call of Duty. And by interacting with this bot, you could also unlock new content, new missions. I think in the first 24 hours they had over 6 million interactions. So we're really proving that this is a platform that can add a lot of value to enhance relationships between businesses and consumers.

Then on top of that, we're experimenting with advertising and other types of interactions with Messenger today. We're beginning, we're further behind with WhatsApp but we're getting there with WhatsApp as well in terms of business-to-consumer interaction.

So we think there's a big opportunity here. It's going to take time. It's early. We're learning. We don't have it figured out like we do with feed-based products. We think there's a great opportunity here given the scale of these platforms and the richness of the interactions that you can have. And also the power that AI can bring to it for both businesses and consumers. So big opportunity. We just have to see how it's going to play out.

A - Brian Nowak {BIO 16819013 <GO>}

Is it -- on WhatsApp, is there a difference in the way that people interact and use WhatsApp versus Messenger? Then, what about on the business front? How are businesses using WhatsApp compared to how they use Messenger right now?

A - Dave Wehner {BIO 2419389 <GO>}

I think at the core, the pedigrees of the products are different. They started different graphs, right, phone graph versus your Facebook graph. So that does define how you're interacting with people in a lot of markets where there's both used. Certain geographies are more prevalent one or the other as well. Then, the character of the products is different. WhatsApp is focused on speed. It's always going to work. It's

less focused on as many features as there are in Messenger, where you see more focus on things like, how do we innovate around the camera and get more experiences there -- how do we make it more fun. And whimsical, at times. So I think it depends on the character of the product.

Then, with the businesses, Messenger has a big advantage of, we've got a ton of businesses on Facebook today. So we've got the 65 million business pages. That's a great opportunity to leverage that scale. And bring them into the experience of, how do you leverage messaging as a platform to interact with your consumers. People are not doing phone calls anymore. There's a great opportunity to have really unique interactions with your consumers. How do we also bring technology to bear, in terms of AI, to help that work at scale? So lots of interesting stuff to do there. But early.

A - Sheryl Sandberg {BIO 15339456 <GO>}

And we're patient, we've never rushed. We've always invested in the consumer experience first. We know that even with the power of the ads [ph] infrastructure that we bring, we want that consumer experience to be right. And we're happy to experiment kind of for as long as it takes, that we can figure that out.

A - Brian Nowak {BIO 16819013 <GO>}

Dave, on the last earnings call, you gave guidance around OpEx and CapEx. And some would describe it as somewhat aggressive. It's quite a bit of spend, my term. Could you just talk through, what are the main investment priorities, kind of in both OpEx and in CapEx this year? Then maybe give us a little bit of perspective on how you think about the budgeting. And then candidly how conservative you are in the overall guidance process?

A - Dave Wehner {BIO 2419389 <GO>}

Well I think we're trying to call it like we see it. And what we expect to do and we're trying to achieve. We think there's great opportunities to invest in this business. So what we're looking at is, how do we fund those investments across a wide variety of different time frames. We've got -- we're focused on the core, of course there's lots of opportunities to continue to improve Facebook, make it great for video. How do we also -- how do we continue to scale the infrastructure? How do we build the next generation products? There's many things to invest in. And what we've done is increased our recruiting infrastructure, increased our footprint in terms of our engineering offices, to be able to scale globally more quickly.

So first and foremost, we're going to see an acceleration in head count growth. So we grew at about 34% last year. One of the drivers is going to be, we're going to see that come up this year in terms of the speed at which we're growing headcount. So that's one of the key drivers. Also, we're investing in non-headcount areas like R&D, we talked about the content side. Then, other areas like marketing and the like.

Then finally, we're making a big investment in CapEx. We think that our infrastructure is strategic for us to own it. And to operate it. And we're investing \$7.5 billion across the globe in building up data centers and all of the associated infrastructure to

support the growth that we've got. We think that's an investment that's got a great ROI. We've got to make sure we provide the best service to our consumers and to businesses across the globe. And to do that we need to put a lot of investment in the graph [ph].

A - Brian Nowak {BIO 16819013 <GO>}

As part of the guidance and kind of forward commentary, you've been one of bangers of the drum saying, we're a GAAP company, not a non-GAAP company. Why move toward GAAP? Why is that an important message for Facebook to send out?

A - Dave Wehner {BIO 2419389 <GO>}

Yes, I think the reality is how -- that's really just reflecting how we think about it as managers. So when Sheryl and I sit down. And Mark. And we all sit down and figure out how people are getting paid, we don't go, they're getting paid this salary. And let's not spend any time talking about what stock comps they're getting paid. Of course, we spend a lot of time talking about the compensation that we pay to employees, regardless of what the form that compensation is. And the biggest difference between GAAP and non-GAAP, in the way that it's used in the industry, is the stock-based compensation side of things.

Now, there's some value in the non-GAAP because it can help define what the trend is in terms of the growth rate, taking out certain effects that are driven off of it. But I don't think you can really look at what a company is doing from a profitability perspective and ignore a major factor of stock compensation.

A - Brian Nowak {BIO 16819013 <GO>}

Yep, amen [ph]. On capital allocation, you have \$30 billion of cash on the balance sheet as of the end of last year. You now have a new share repurchase authorized. Talk a little bit about, kind of capital allocation, priorities in the Company. And how should we think about the timing of the repurchases being completed?

A - Dave Wehner {BIO 2419389 <GO>}

Look, the priority for the Company is growth, making sure we've got the capital to grow. And to expand on the opportunities that we see in front of us. So first and foremost, priority growth. Now, we are sitting with \$29 billion in cash, we generated over \$11 billion in cash last year. So we do think there's opportunities to be opportunistic about repurchasing shares to offset dilution. And that's what the \$6 billion share repurchase authorization is about. But that doesn't have any fixed time frame. And we're going to be opportunistic about executing on that.

A - Brian Nowak {BIO 16819013 <GO>}

Understood. Sheryl, I wanted to close on one of the budding opportunities within Facebook. And Facebook Workplace. Where are you now with Facebook Workplace. And what are the -- what's the five-year, ten-year vision of Facebook's role in the enterprise?

A - Sheryl Sandberg {BIO 15339456 <GO>}

For those of you who haven't seen it, Workplace is basically Facebook for work. You would actually have two apps. You have your app which is your regular Facebook for your friends and family. And one that's internal to your workplace. And it looks and acts just like Facebook. You can have your groups, you can have a news feed, you can share. We used Facebook internally. We've had our own version of Workplace all along. And we think it's part of what's contributed to our success, that we are a very collaborative culture. We use Facebook to share. So we have lots of ways people are collaborating all day. And using Facebook to do it. And so, more and more other companies were asking us for that. And so we built it and rolled it out.

We now have 1,000 companies using it. Some interesting examples, the government of Singapore is using it. And what they've found is more than 80% of the people who are on the product are using it on a very regular basis. So they're seeing much more connectivity than they have before.

Danone, which is one of the largest CPG companies in Europe, they make Dannon Yogurt amongst other things, they put 100,000 people on it and a third of those people are factory workers who had no corporate IT connection or corporate e-mail before. And they're seeing a lot of engagement.

We think the same things that keep us able to share and connect in our real lives, keep us able to share and connect at work. And so, we're pretty excited about the impact this can have on companies. And we're pretty excited about the feedback we're getting.

A - Brian Nowak {BIO 16819013 <GO>}

Fantastic. Sheryl, Dave, we're against the clock. Thank you. So much, we do appreciate it.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Thank you.

A - Brian Nowak {BIO 16819013 <GO>}

Thank you.

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