

Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- David Ebersman, CFO
- Scott Devitt, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Scott Devitt {BIO 4757000 <GO>}

Why don't we get started? I'm going to start with disclosures, both Morgan Stanley and Facebook disclosures. Please note that all important disclosures, including personal holdings disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at MorganStanley.com/researchdisclosures or at the registration deck.

And now for the Facebook disclosure. Before we get started, on behalf of Facebook, I would like to take this opportunity to remind you that during the course of the chat, David may make forward-looking statements regarding future events and the business strategy or prospects of Facebook. Facebook cautions you to consider the important risk factors that could cause actual results to differ materially from those in the forward-looking statements. These risks factors are described under the caption Risk Factors in Facebook's annual report Form 10-K, filed with the SEC on February 1, 2013.

In addition, please note that any forward-looking statements that David makes in this chat are based on assumptions as of today. And Facebook undertakes no obligation to update these statements as a result of new information or future events. I've never done that before. So thank you. That's complicated.

David, welcome. Very happy to have David Ebersman with Facebook. Spent 15 years in the biotech industry previously. And I think it is a very interesting conversation. This is David's first public appearance at a conference since becoming a public company. And I think probably the best way to start off is let David give an overview of the business. And we will dig into questions.

David Ebersman {BIO 2425453 <GO>}

Okay. Great. First of all, thank you, Scott, for including us and giving us this opportunity. And thanks to everyone for coming. We appreciate your interest.

As you well know, Facebook, our mission is to build products that make the world more open and connected. And I think if you think about the first nine years of the Company's history, what we've succeeded in doing is to build the foundation, some really important building blocks for what we are trying to achieve as a Company.

The most important pieces of the foundation, the most important building blocks for us are really two things. The first is the network of people who use Facebook and their level of engagement and activity with us. So at the end of last year, we had over 1 billion people around the world who are active users of Facebook. On an average day in December, over 600 million people came to Facebook to connect with their friends, share photos and news, discover what's going on in the lives of people that they care about. And that usage and that activity and that engagement really sets us up and drives everything that we are trying to do.

The second building block for Facebook is the social graph that has been created by our users. Every time someone comes to Facebook, makes a connection with someone else, likes a business or a place or a product, that helps us build out what we call our map of the social graph, which is a representation of all the connections that exist between people and places and things. And having that map, having that representation, gives us something that we can really use to build new and better experiences for people.

If you think about Facebook's priorities in 2013 and going forward, we are really focused on trying to build upon those blocks, create new kinds of experiences that take advantage of the assets that we have today.

And our priorities are really centered in three areas right now. So the first area is trying to build out the mobile experiences that we offer to users. We are fortunate today to have a large number of mobile users; almost 700 million people access Facebook from their mobile devices as of the end of last year. And in 2012, we succeeded in making our mobile products faster and more reliable, which encouraged people to use them more.

But we imagine that we are just getting started in terms of our journey in trying to build the most engaging, the most valuable and useful mobile products. And as we think about 700 million people and growing who have Facebook in their pocket on a device that has a camera and location services and all of the other powerful technologies that are embedded into your phone, we imagine that there is much more to what we can offer our consumers in the future.

The second key priority for Facebook is to build new kinds of experiences that take advantage of the social graph and the network that we have. And those experiences will be either built by Facebook or built by third-party developers using our platform. An example of the kind of new experience that we want to bring forward is our

Graph Search product that we announced earlier this year and are in the process of slowly rolling out.

So Graph Search enables you to come to Facebook and query the social graph for the kinds of connections and information that might be of interest to you. So places your friends have been to, photos of a person or of several people together, restaurants that your friends might have liked in a certain city, et cetera. So information that is available to you on Facebook. But prior to us launching this product is really hard to get at and hard to find, that we want to put at your fingertips so that you can have a different kind of search experience that is complementary to the other things that already exist.

So the third priority for the Company is to continue to invest in our monetization products and to bring forward new ways to help businesses to reach their consumers and to communicate with them and market their products and promote their offerings to them.

So an example of a product that we launched recently that we think is an interesting and important one for us is the mobile app Install Ad product. So we imagined that in the future, more and more of the time you spend is going to be on mobile applications, learning about information, connecting with people consuming. And developers, as they build these apps, one of their core challenges is figuring out how do we get the apps to be discovered, how do we put them in front of people so that the consumer audience knows what we've built and has an opportunity to try it?

Since consumers come to Facebook to discover what's going on in the world around them and to learn more about things that are interesting to them, promoting an app within Facebook makes a lot of sense to us as a really good product opportunity for developers and for users. We launched this product last year and are already seeing good traction in terms of interest from developers around the world.

So I hope that gives you a sense for what we are working on now. We feel like as a Company we are very pleased with what we've built to date, where we are and how we are positioned. But we are still very early in the journey of what we are trying to build and what we are trying to accomplish. And are excited about the opportunities that are in front of us in 2013 and beyond.

With that, why don't we turn to questions?

Scott Devitt {BIO 4757000 <GO>}

You did such a good job, I don't have anything left. So we're done.

David Ebersman {BIO 2425453 <GO>}

Just read the forward-looking statement again.

Scott Devitt {BIO 4757000 <GO>}

I'll get through it easier the second time. One thing I think is interesting that is -- I was on the Facebook page. Cheryl posted something of a visit that Facebook executives did to Wal-Mart. I saw you in the picture. And I think it is interesting because, one, it highlights what you're doing with larger advertisers potentially; and two, it also highlights the culture of the Company that you are trying to build at Facebook. So maybe let's start there and touch on those two topics.

David Ebersman {BIO 2425453 <GO>}

Great. So last year, Wal-Mart invited the Facebook leadership team to pay a visit to Bentonville, which we were thrilled about and eagerly accepted. Really, there were two purposes for the visit, both of which were really fun and interesting for us.

The first was to get to know one of our best advertising clients. So Wal-Mart has been a company that for the last several years has really tried to be forward-looking in thinking about the importance of Facebook to their consumers and how they want to be part of the conversation on Facebook. And they've been, I think, better than many other companies at, for example, creating advertising products that really work in the Facebook context, that feel like an interesting Facebook newsfeed post. And not like the ad that they would be showing on some other piece of media that they just brought to Facebook.

So we wanted to go and acknowledge the team that has been so forward-leaning in terms of how they invest with Facebook. But also, it's very important to them as Wal-Mart thinks about who their suppliers and their partners are, they want people to understand Wal-Mart, who they are, what they care about, what their objectives are. The better we understand that, the better we can support them. And hopefully encourage them to just spend more money with us from an advertising standpoint over time. So it was a really helpful meeting in just understanding what Wal-Mart cares about, who they are, et cetera.

But the second part of part of the meeting that in some ways was even more eye-opening for me was just to get a sense for how strong the culture is at Wal-Mart, how they've succeeded in building this very large company, where, as far as I could tell, every employee really has a very clear connection to what Wal-Mart is trying to do and what values they care the most about.

And at a company like Facebook, which is a very mission-centric company, a company that really is trying to build something that is sustainably great as a service, as a business, as a place to work, we'd aspire to build the kind of culture that is as connected to our values and what we care about as Wal-Mart has done. So learning from them, getting a sense for what some of the activities they've undertaken are to try and build that, was really both inspiring and very educational for us. And a really worthwhile trip.

Scott Devitt {BIO 4757000 <GO>}

You've talked a bit historically about the focus that you take in terms of the products that you create. And recently, it seems like the products that you are testing, you're testing a lot more than you have been. And so maybe talk a little bit about the way the Company thinks about focusing on product innovation versus attempting to do many different things at one time.

David Ebersman {BIO 2425453 <GO>}

I think one of the things that has defined the Facebook culture in our early years has been a very strong focus on a few things. So I think this really flows directly from Mark having a very clear vision of what he wanted Facebook to be and what he wanted to accomplish. And just as important, I think one of the things I was most impressed by when I first met Mark in the Company was how willing he was to say no to things that he didn't think were the most critical things for us to do in the immediate term.

So I think Facebook has always had a long list of projects that we thought made sense, could add value, would be worth investing in. But has taken the sort of business strategy of picking a smaller number of those projects and trying to do them really well, rather than trying to do a little bit of everything.

And when we think about the growth of the Company and our success in hiring people and expanding the R&D capabilities of Facebook, what that has enabled us to do over time is to go deeper into the list of projects that we think are going to be valuable for consumers and for advertisers and for developers. But still trying to recognize that we are better off doing a more limited number of things and trying to do them really well, than spreading ourselves too thin.

Scott Devitt {BIO 4757000 <GO>}

Back to the advertising side of the business, you have different points at which you touch the consumer in the funnel of advertising, if you will. So when you think about the brand message that the consumer sees, is there something unique about brand messaging for advertisers on Facebook relative to other mediums of media?

David Ebersman {BIO 2425453 <GO>}

I think I would start by saying that we think Facebook has the opportunity to be valuable to advertisers across the spectrum, regardless almost of what their objectives are. If it is a brand objective or a direct response objective or a small business, we think there is ways to use the Facebook platform to further that marketer's objectives.

But brand advertising is a particularly interesting thing on Facebook, because think about what brand advertising is. You are trying to introduce your product or service to a consumer and to get them to better understand a certain message that you

have about it, that the product is high-quality or that it is safe or that it tastes good or whatever else. And make an association between your product and that message that will impact a consumer's purchase decision at some point in the future. So that really is what distinguishes brand messaging from something where you are trying to get a more immediate action.

So basically inherent in the idea of brand messaging is when the consumer sees it, they didn't -- they weren't intending to be learning more about Coca-Cola, Procter & Gamble or whatever else when they saw it, because brand messaging is really teaching them something that they might not have been thinking that they were planning to learn about.

And the reason that fits so well into the Facebook experience is when you come to Facebook as a consumer, you don't generally come to Facebook because you have a very specific topic in mind, that you know you're coming to Facebook to learn more about X. And that is why you are here. You come to Facebook because you're curious. You want to discover what's going on in the lives of your friends, you're curious what's going on in the world around you that you might find interesting.

So we feel like the delivery of a brand message that we just launched this new product and here what is interesting about it fits very well into the mindset of the consumer when they come to Facebook. And are pleased that over time we've been able to demonstrate not just that brand advertising on Facebook works in terms of people's ability to recall the messages that they see and to understand the messages that they heard from the brand advertisers. But ultimately to influence purchase behavior that might occur later that day or that week or that month as the consumer gets themselves in a circumstance where they might act on the message that they've heard.

Scott Devitt {BIO 4757000 <GO>}

The Company has a vision of basically everything on the Internet becoming social over time. And we talk pretty extensively to those that have integrated through the API and do pull functionality both on-platform and then pull it into their sites. And the feedback that we get is it still very early days.

What do you think the points of friction are in terms of really meeting that longer-term vision of making the entire Internet social. And what are some of the areas you think are most interesting in terms of Facebook's ability to influence over the next two to three years?

David Ebersman {BIO 2425453 <GO>}

I think our vision in this area is that most of the activities that you undertake online will be more interesting and fulfilling for you if they are personalized to who you are and what you are interested in and if they are social.

So if you can imagine sort of the two extremes here, if you can imagine a website that exists, that if all of us in this room were to load up and look at, it would have the exact same information for all of us. So if it is a sports site or whatever else and it has the exact same story on it. And all you can do is sort of passively read that story, that is a different kind of an experience than if we all were to try and go to the same kind of sports news site and we each have a piece of news or several pieces of news that are tailored to the teams that we are interested in. So that is personalizing the experience so that it taps into who you are and what you care about. It just makes sense to us that the latter experience will be better than the former one, if done well.

Similarly, what makes the experience social is the ability, when you're there, to interact with your friends. So if you're reading about something that you find interesting that you know you have friends who would also find interesting, your ability to interact with those people as you're reading it to make the experience social will make the experience better for you and for them than if it is just a place where you can go and consume and can't interact at all.

So that is the basis of our vision, is that products that are personalized and social will just be preferable and more rewarding.

So the challenge of course is building those products. And enabling developers to tap into the information that we have on Facebook, if they integrate their services with Facebook. So they can pull information that helps them to personalize the experience that enables people to connect with their friends when they are using it in a way that makes the experience more rewarding.

We've been working on this for a couple of years now. It is a hard series of problems. It is different in every industry. Games was the first industry that I think really thought of some very clever and successful ways to integrate personalization and social interaction into the flow of the game. And we saw that really creates some very interesting and widely-used gaming experiences that hadn't existed before. And we are seeing other industries sort of on a vertical-by-vertical basis start to experiment with how to bring personalization and social behaviors into their experiences to make them better.

Scott Devitt {BIO 4757000 <GO>}

You mentioned Graph Search as a priority over the next year. Talk a bit about that, where you are in development. And to the extent that you can expand on how many employees you have focused on this and when you can really see a commercial benefit from the product.

David Ebersman {BIO 2425453 <GO>}

Graph Search is a complicated product. Some of the things that we build at Facebook can be built by a small number of people in a short period of time. And Graph Search is not such a product. The challenges inherent in making this product work well involve really organizing the massive amounts of data that we have in

Facebook so we understand what it is and can query it quickly and deliver it to you. And make sure that it passes through all the appropriate privacy protections. So that you are seeing the information that you're eligible to see and not more than that. So it is quite a complex technical challenge that will take time for us to build to accommodate all the use cases that we think could be most interesting and most rewarding for people.

In terms of monetization of Graph Search, as is generally the case with our efforts in product development, our focus starts with trying to build products that are useful and engaging for users. So the priority right now in Graph Search is trying to make the product useful so that there are queries that you are likely to do and find interesting when you get the results from Facebook. And our belief is that if we can build products that are useful and drive a lot of querying behavior, that gives us the opportunity in the future to think about how we can monetize that behavior in a manner that is good for our business partners, good for Facebook and hopefully good for the users as well. But that's not the near-term priority in terms of what we are doing.

Scott Devitt {BIO 4757000 <GO>}

It's interesting -- you have such dominant positions pretty much throughout the globe. In Brazil, though, just in the past two years, the growth of the business has been substantial. And you overtaken a leader in that market. What has been most interesting about that experience. And are there other markets like that where there is significant untapped opportunity?

David Ebersman {BIO 2425453 <GO>}

There have been many markets -- so Facebook, of course, started as a product available in the United States. And one of the questions many years ago was whether or not we could bring Facebook successfully to other markets around the world. And one of the things that made that question particularly interesting was that in many of those markets, products that resemble Facebook had already cropped up and were already being utilized.

So Facebook had to go and be, if you will, the second or potentially third entrant in many of these markets. Brazil is a really good example, where there was a popular and entrenched competitor when we really tried to enter the market there.

So what we've learned in markets like Brazil where we've been extremely successful is first of all the most important thing is that the product is good, that the features of the product enable people to have the experience that they want to have. And for it to be simple and easy for them to use and get the outcomes that they are after. So the product is, of course, the most important thing in winning out in a country like Brazil or elsewhere.

The second thing that is interesting is the importance that comes from our ability to bring the rest of the world to the problem. So one of the things that makes Facebook

attractive to a user in a country like Brazil who is thinking about using it is that you can connect with the people that you know and are friends with and are interested in around the world, because Facebook brings that global footprint in a way that most of our competitors aren't able to do. And I think that has been extremely important in a number of markets.

Then the third thing that we do is we do spend a fair amount of time trying to figure out how we market the product, how we communicate about the product, how we create the conditions for the kind of viral growth that really makes Facebook successful. And it's definitely a part of the secret sauce at Facebook, is really understanding how we approach a market where we are not the most popular player yet. And how we try and create the conditions that enable usage to really take off and expand exponentially.

Brazil is a really good example of a success story, where we came later and from a position where we were dramatically smaller than the most entrenched player in that market. And were successful. And now, Brazil is one of the countries in the world where we have the most users. It's in the top five. I'm not exactly sure what number.

That has played out in many other markets. But not all. Some markets have proved to be harder than others. And we keep working on them.

Scott Devitt {BIO 4757000 <GO>}

And Russia is one of those markets, to the extent you can share anything on that market and how that has been developing.

David Ebersman {BIO 2425453 <GO>}

Russia has been, relative to Brazil, a more challenging market for us, where we've come in. And the entrenched player in Russia, who has a product that looks a lot like Facebook with some different features -- and it's a good product and it has done well -- has been harder for us to usurp and compete with.

But we keep working on it. And we are growing in Russia. And we have more users there now than we did a year ago. And we will keep trying to figure out what the right set of actions and tactics are to enable us to really try and tip that market and become the leading player there over time.

Scott Devitt {BIO 4757000 <GO>}

And so you touched on -- or I guess I brought up the topic of focus. You touched on the approach that the Company takes. That can lead to volatility at times in terms of business performance and in terms of going through product cycles.

How do you as a management team think about managing the volatility of the business to the extent that that is even part of the discussion? And how do the

product cycles that you go through now as a public company potentially differ from how that may have been as a private company, if at all?

David Ebersman {BIO 2425453 <GO>}

I think it goes without saying that the business is easier to run if we can reduce the volatility, if we could get the business on a cycle where product launches were predictable with a certain periodicity, that that would be easier to manage. It is never going to actually work like that, because innovation isn't sufficiently predictable. And sometimes products move forward more quickly than you expect. Sometimes they take more time.

And I think the most important thing for us is to recognize that if we build great products that people really enjoy using and get value from, we're going to be able to be successful. And that is going to be more important than trying to dictate the pattern with which those products will be launched.

Having said that, though, mobile experience is a little bit different, at least in terms of the ways we can update the products and the applications that we offer, because we can get on a cycle with the mobile applications of trying to update them every month or every two months, et cetera. So a slightly more predictable rhythm for the smaller kinds of updates that we can bring to the mobile market.

Scott Devitt {BIO 4757000 <GO>}

So talk -- I guess this is somewhat on that topic -- about the way that management thinks about news feed ad integration, both on the desktop and mobile. And managing the need or preference to monetize end user experience. Then part two of that question is where you are in the US versus other markets in terms of, without specifically talking about ad load. But in terms of monetizing both mobile and desktop news feed.

David Ebersman {BIO 2425453 <GO>}

So news feed, as you know, is a core part of the Facebook experience. So when you go to Facebook and you load up your homepage, the first thing you see generally, unless you were targeting something specifically different, is going to be your news feed. And that is the window into the whole product. So it's a really important part of the discovery process that is your Facebook experience.

So we believed that by putting ads into news feed, we could really create a valuable opportunity for businesses to market their products and services, because it is the core part of where your attention is. And particularly on the mobile phone, if you have an ad product that fits naturally into news feed, we felt like it could be a natural part of your mobile Facebook experience, as opposed to being an interruption that would take you to a different place and then you would have to come back to.

So when we started last year putting ads into news feed, we really felt optimistic that this would be an ad format that was likely to work well for us. But obviously, didn't know exactly what the results would look like. We are very pleased with what we've seen in the early quarters of introducing ads into news feed on both desktop and mobile. And we are pleased with them in terms of the information we get back, in terms of the clickthrough rates and the engagement we see on the ads, the impacts that showing ads have on user engagement and sentiment.

What Mark quoted on the last earnings call, which is a piece of data that we care a lot about, is one of the things we measure in news feed is the amount of likes that users put into the system when they see their news feed, with the idea being that if you like the content you are seeing, we've probably done a pretty good job showing you content that is interesting to you. And if you don't like anything you see, we may need to work harder at the algorithm for trying to show you interesting content.

And in the course of last year, all of the optimizations that we made enabled us to increase the number of likes that we were seeing in news feed by about 50%. And when we compared users where we'd put ads in news feed to a holdout group, who we've never shown ads in news feed, we saw that the difference in likes was just a couple of %. So really very minor and in the noise, particularly relative to the substantial increase in likes we've been able to generate through our other optimizations.

So what we are not seeing is a significant impact on user behavior and engagement with news feed from the presence of those ads.

So as with most of our new products, usually the first place they are likely to ramp up is in the US, because that is where we have the deepest client relationships. And so ads in news feed really started to ramp up in the US before certain other markets. But they are really catching up in markets around the world now. And we're seeing news feed as a valuable and attractive advertising option in most markets around the world.

Scott Devitt {BIO 4757000 <GO>}

Other products that have been discussed lately, some of which that you've begun to test and others that are earlier-stage, that come to mind are commerce, the Facebook Exchange, or FBX and then potentially ad network opportunities. I was wondering if you can just to the extent on some of those you may be able to talk more than others, your thoughts around those businesses and what Facebook is trying to achieve in those product categories.

David Ebersman {BIO 2425453 <GO>}

Let's start with the middle one, which you described, FBX. And I'm going to just take it up one level to what the umbrella that we think FBX sort of sits within, which is the targeting and relevance of advertising on Facebook. So what we are trying to do over time is to build a system that enables us to show the right ad to the right user,

that has the best possible probability that we are giving you a message as a user that you are going to find interesting and are going to engage with.

And over time, we will continue to build and are building and will continue to build tools to try and improve our ability to show more relevant advertising to each individual user.

So two products that we launched last year that sort of fall into this category, one is a product called Custom Audiences. And this is an important product for us, that allows advertisers to come to Facebook with information they have about their customers. So if you're a small business and maybe you are a local coffee shop and you collect e-mail addresses of people who come in and participate in your business, you can then come to Facebook with that list of customers and say, hey, can you show ads to these people. And since we know the e-mail addresses for Facebook users and since most people are Facebook users, we have a really high ability to match that list with our user base. And we can say, yes, we can make sure we are targeting the message you want to send to those users.

In the context of a larger business, like a business like Target, that has got a much longer list of customers and more information about them, Target might want to show certain ads to a segment of their customers who are likely -- who they believe have purchased sporting goods in the past, or other people have purchased clothing in the past. And they can use Custom Audience to target the ads they show on Facebook to the subsets of their customer list.

So we think this is a really interesting way to marry our data and our knowledge about users with the work that our clients are doing to understand their customers and what their interests are. And also with third-party data that they might be able to purchase to weave into this. And you can target your customers and others who have characteristics like them using Custom Audiences. So that is an example of I think an important product for us in terms of improving targeting.

FBX is another example that really is more based on your behavior on the Internet. And the knowledge that third parties might have about where you've been searching or shopping for or whatever else. So that if you went to a website and looked at a certain product but didn't purchase it, they can target an ad to you later when you're on Facebook, to try and get you to come back and revisit a potential purchase decision of that product. So again, it is a different kind of targeting. But in the same concept.

The other areas that you asked about, commerce, we launched a product last year called Gifts with the idea being that there is some social behavior on Facebook that we think should fit naturally into also sending someone a physical or digital good to support the message that you are giving them. A really obvious example is birthdays. There is a lot of happy birthday behavior on Facebook, because it is a time when you reach out to someone and say, hey, happy birthday. So putting the Gifts product into that flow. So that if you want to, in addition to saying happy birthday, you can send

the person something to acknowledge their birthday, we feel like is a nice piece of social commerce that we launched and are working on now.

Your last question was about an ad network, which is something that we don't really offer today. It could be something that work on in the future. Our priority today is really trying to bring more advertisers into the system to advertise on Facebook. We have a tremendous amount of supply in terms of the number of users who have come, the amount of time they spend with us. And we want to bring that demand into Facebook to create more competition to show better ads and more valuable ads to users on Facebook today.

Scott Devitt {BIO 4757000 <GO>}

I'm going to ask one more. We should have about 10 minutes or so for questions as well.

But one thing that stood out to us -- and I don't want to overly compare your business to Google, because they are very different and both very successful. The magic in Google was the ability to measure the return as the advertiser. This whole analytics community built up behind Google over time. Google offered analytics functionality internally. But there is a whole third-party network, including companies like Omniture, that build up. And it seemed as if, at least in the past year, that that community hadn't been built up yet around Facebook.

And so as advertisers come and we discuss with them where they are spending their ad dollars, the measurement functionality is an area that still seems to be lacking. So I was wondering if you could talk a little bit about what Facebook is doing in terms of providing real analytics and then how you think about a third-party community on top of Facebook.

David Ebersman {BIO 2425453 <GO>}

I think the return on investment that we are able to provide to advertisers is a critical piece of what we are building at Facebook. And to date, much of the effort that we've put into that has been sort of client-by-client, working individually with a client who is willing to really spend some time and money to figure out -- to find what their objectives are and then to work with us and third parties to figure out how they can measure the performance of Facebook advertising against those objectives.

Clearly, our ability, both as a first party and with third parties, to develop tools that enable more advertisers to more easily measure the performance of their investing -- of their advertising investments on Facebook is an important thing. And we think will be a good thing for Facebook, given the positive results we've seen from the companies we've worked closely with on return.

So I think we're in the early days of seeing a third-party ecosystem emerge, where people become experts in thinking about how you optimize and measure Facebook advertising. And to provide that service and that value to advertising clients. I also

think Facebook is investing more than we have before in trying to provide those kinds of tools ourselves. So that advertisers can use them to optimize their spend with us. And I think that's an important area.

Scott Devitt {BIO 4757000 <GO>}

We have 11 minutes left. We'll pause and go to audience questions. In the front here, in the middle.

Unidentified Participant

On monetization between the US market and the global market, at what point -- I know there is a differential link [ph] per capita. I understand that. But at what point will we start to see that narrow -- that gap narrow between the domestic monetization and the international monetization? Help us understand that path.

David Ebersman {BIO 2425453 <GO>}

Well --

Unidentified Participant

(inaudible)

David Ebersman {BIO 2425453 <GO>}

What was the last part?

Unidentified Participant

(inaudible)

David Ebersman {BIO 2425453 <GO>}

The last part was -- he was asking about monetization per user. So I think in most ways, where we are today in terms of relative monetization across geographies isn't a big surprise. If you compare how we do to how -- other companies who have been successful in terms of -- on the consumer side have done on a relative basis, just based on the maturity of the ad market. So I think we are probably in a position that is not dissimilar to what we might have expected.

Having said that, there have been some positive surprises. There are some developing markets where we were not optimistic that the advertising market would emerge quickly. We decided to invest in making sure that we grew our user base in those markets, because we figured over the long term that was good for the network and that the advertising markets might emerge over time. And some of them have pleasantly surprised us in terms of advertising market that you might not have predicted if you looked at GDP per capita or things like that. So that's good.

Over time, I think the most important driver of that -- drivers of those gaps closing will of course first of all just be the performance of the local economies. But the second thing will be our ability to generate more advertiser demand in those markets. What really enables us to ramp up our business in addition to usage is more competition from advertisers that drives up price over time.

So it's really important to us on a market-by-market basis to have the right strategies in place so we can encourage more advertisers to believe that the returns they will get from advertising with Facebook should cause them to dedicate more time and attention to what they are doing with us.

An example of the kinds of things we do, we've always felt that with small businesses, because so many small-business owners are Facebook users personally, they have Facebook accounts, that we have the opportunity to transition them to be page owners and advertisers by using the product to encourage them to think about how they interact with Facebook as a person and how that can benefit their businesses. And we are definitely seeing not just in the US. But around the world, really nice growth in usage of the pages product and the advertising system by small businesses.

Unidentified Participant

I wonder if you could discuss the health of the network. There is an increasing amount of competition for your -- I guess your youngest or fastest-moving users, whether that's Twitter or other media. How do you actually measure that internally? And I guess in terms of keeping that fresh and vibrant and not turning into MySpace, what are the factors that you measuring and what are you most concerned about?

David Ebersman {BIO 2425453 <GO>}

The way we see this market in general is that the market for services that enable you to connect with other people and to share and to discover information is just a marketplace that is growing extremely rapidly. It is exploding because the tools are useful and because it is so much easier technologically than it has ever been before for you to share information and to find information that others are sharing. So there is more and more of these tools.

We see that as a reflection of not only a growing marketplace. But something that is going to remain important into the future. So we don't expect to have every behavior from every user. There is going to be other competitors that offer certain kinds of services that are also used. But we feel very well-positioned because of the size of the network we are starting with and the knowledge we have about our users.

So let me answer the question about measurement. And then I'll sort of come back around to what we think is important for us. So the kinds of things that we measure are of course visitation. So we look at are we growing the number of people who are active monthly users of Facebook. And then the number of people who are daily users. And the daily user number continues to rise nicely. And that is a really

important measurement of the fact that people are finding Facebook useful and they are making it a part of their daily routine.

We measure what they do when they visit. So the amount of content that they share, how many likes that they put into the system, which, again, as I said earlier, is a reflection of the utility that they find in the information that is there, the comments that they leave. How much sharing is occurring through Facebook. And that is an important metric that also gives us a sense for the health of engagement across the platform.

The other thing I was just going to describe quickly that I think is an interesting competitive advantage for us is what we are trying to do with the services we offer to each one of our users is we are trying to personalize the content you see in a manner that you will find most interesting. So of all the information we are able to show you on Facebook, we are trying algorithmically to pick out which pieces of content to put at the top of your news feed because we think you will find them most engaging. And every time you come to Facebook and interact with the content we provide you, you are giving us the chance to make our algorithms a little bit smarter about who you are and what you find interesting.

And we have now -- for our oldest users, we have nine years of training in terms of information from them and nine years of experience trying to figure out how to optimize these algorithms, that really help us to operate within a world where we have so much more information flowing through the system. And to choose the information that's going to be most interesting to you and that we can present to you. I think that is going to be a core part about -- our ability to do that well will be core to our ability to continue to have engaged users, even as they contemplate other services that come up.

The only other thing I should mention in the context of the question is one of the services that is, I think, a quite formidable competitor is Instagram, which has grown extremely rapidly and now has over 100 million active users. And that is a product that of course -- or as company that we purchased last year as a complement to the photo-sharing that already existed on Facebook.

Unidentified Participant

Thinking differently about the monetization, the value of the information you have is a directory for businesses to reach out to their customers. So businesses spend tens of billions of dollars a year to get databases of e-mails. If you can make e-mails obsolete, how do you reach out to those customers and translate that into the business side --?

David Ebersman {BIO 2425453 <GO>}

I think that we have for essentially since we started with advertising offered advertisers different opportunities to try and reach out to segments of Facebook's consumer base that resembled our customers. So people who like skiing or people

who live in a certain city or people who've connected to a certain kind of music. So the opportunity for you to think about what do you think your customer base looks like and how do you use the information in Facebook to target is a core part of what we've offered for a long time.

The new products that I mentioned earlier really are an attempt to bring different kinds of targeting information to that conversation. So that if there is a business that has accessed that third-party site to get list of e-mail addresses that for some reason they think are relevant to them, they can e-mail those people. They can do that directly. Which will have some utility. But you know, e-mail has a lot of spam and it may not be the most efficient way to reach that group.

But with Custom Audiences, you could now take that e-mail list and we can match, as much as possible, to those people. And then we can show them ads across devices. We can also try and target people who have characteristics that look like them. So that if you given us an e-mail list that is heavy -- heavily represented by people who might live in a certain city or like a certain kind of activity, we can then further target to people who may not be on the e-mail list you gave us. But who have characteristics that suggest they might have similar interests.

So really pulling that together in a way that is -- that works well and is robust I think is one of the most important opportunities we have to make monetization work better on Facebook.

Scott Devitt {BIO 4757000 <GO>}

Any other questions?

Unidentified Participant

When you look at the domestic news feed mobile ads, where are we in terms of volume that you can fill right now? When I look at my own feed, I probably see two or three ads every time I pull it up. I'm trying to imagine what it looks like at six or seven -- how do you guys think about that?

David Ebersman {BIO 2425453 <GO>}

I don't think we have a predetermined answer for where this journey takes us in terms of that metric. We are relatively new to the game of trying to understand what news feed ads look like and how to optimize them.

As I said before, I think the most encouraging data point that we have today is the lack of negative impact that we've seen or meaningful negative impact that we've seen from the ad loads we have today.

As I think about what the future looks like, I think it is really hard to separate out quantity from quality. I think the better the ads are, the more of them we can show,

without having a negative effect on the user experience on Facebook. So our ability to work with clients to help them understand how to create better-targeted and more engaging news feed ads I think will enable us to show more of them.

So a good news feed ad in my mind is an ad that looks like the other content in news feed. It resembles the flow and feel of the posts that your friend made that is above it and the post that comes below it from a family member. And I think a news feed ad that is likely to be of lower quality is one that really just sort of takes a message and sort of shoves it in front of you in a way that is not as engaging and interesting and involved as the other posts that you might see around it in news feed.

So I think we are still early in the process of our clients learning and understanding what good newsfeed advertising looks like. And I think if they are able to move up that learning curve, that also helps us a lot.

Scott Devitt {BIO 4757000 <GO>}

One last question. If there is none, we will go back to the front.

Unidentified Participant

David, this question is about engagement and the next generation of users. Number one, how comfortable are you that you are capturing the mindshare of the younger generation that is entering college, that they are becoming Facebook users? And talk to us about what you guys are doing with Instagram, where I think there is a lot of younger people using that service. And how are they migrating to a Facebook environment?

David Ebersman {BIO 2425453 <GO>}

I think it is -- we just completed the Instagram purchase some number of months ago and are still really -- that team is still really focused on just growing usage, as opposed to -- those are very interesting questions, in terms of how Instagram relates to Facebook in terms of the same users and how they use them. We don't have answers yet.

What we do know is that Instagram is already a very popular service that continues to go grow rapidly. And we believe, based on the information that we have, that it's quite popular among the kinds of users that you're asking about, the younger generation.

It is very important for Facebook to build products that are useful to those users and to build products that they feel comfortable they can have a good experience with. So definitely high on the list of priorities for us. Facebook is a very young company in terms of the age of our employees. And I am hopeful that continues to be an asset for us in terms of having our finger on the pulse of what matters to that particular constituent of users and how we can provide products that satisfy them.

Scott Devitt {BIO 4757000 <GO>}

I'm going to squeeze one last one in and we'll close, which is the extension of payments. You've got users, you have sites connected to Facebook, the potential of really opening up payments as a solution in the way that PayPal is over time.

David Ebersman {BIO 2425453 <GO>}

I think that the payments product we offer today is used for the purpose of virtual or digital goods through our platform partners primarily. And to some degree, directly from Facebook's offerings. I think that payments will evolve based on the use cases we can identify, where there is an opportunity for us to bring something forward that satisfies the needs that people have. So if we can figure out a way to make payments enable, in particular, developers, I would say, is sort of the most obvious constituent, better monetize what they've built in their services, we're going to be interested in doing that. But it will really follow, I think, a compelling use case.

Scott Devitt {BIO 4757000 <GO>}

David, thanks for your time. Appreciate it.

David Ebersman {BIO 2425453 <GO>}

Thank you, Scott. Thank you.

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