

Goldman Sachs Technology and Internet Conference

Company Participants

- David Ebersman, CFO
- Heather Bellini, Analyst
- Sheryl Sandberg, COO

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Heather Bellini {BIO 2268229 <GO>}

Okay, I think we are ready to get started. We are cognizant that we are your last presentation before dinners or cocktails. So we will try and make this as good as possible and as informative as possible. But we couldn't be happier to introduce for the last session of the day the dynamic duo of Facebook, Sheryl Sandberg, David Ebersman. Thank you. So much for agreeing to be with us this afternoon. We really appreciate your time.

Sheryl Sandberg {BIO 15339456 <GO>}

Happy to be here.

David Ebersman {BIO 2425453 <GO>}

Yes. Thank you for having us.

Heather Bellini {BIO 2268229 <GO>}

David, you guys just finished a remarkable year, 10-year anniversary. If you look out over the next 10 years, what's in store for us as users of Facebook and investors in Facebook?

David Ebersman {BIO 2425453 <GO>}

Yes. As you mentioned, earlier this month we had the 10th anniversary of the founding of the Company. So that was an exciting milestone for us. And looking back over our first 10 years, clearly the most important thing that we accomplished was connecting and building this network of over 1 billion people who use Facebook

to share and interact with one another. And the way we think about it, this is just the beginning. This is the foundation for us to build on looking forward.

You asked about the next 10 years. And let me sort of work my way out there starting with a slightly shorter-term timeframe and working out to ten.

Over the next few years, probably the most important thing we need to deliver is to build tools to help you to share all kinds of different content with the audience that you're interested in sharing it with. So if you think about the types of content that you might want to share, it can range from a short message to a song to a video or a photo or a link to an interesting news story. And if you think about the audience you might want to share with, it can range from a private conversation with 1 person to a small group of friends to a larger community of people, or to the general public at large.

And what we want to do is build products and improve the existing products that we have that make it really easy and rewarding for you to share any kind of content with whatever audience you're interested in sharing with. And you should see us really focusing on that and trying to make progress in that regard over the next few years.

If you look out a little further, say a 5-year time horizon, one of the most important things we want to deliver is to improve and increase the usefulness, the value that you get from the time that you spend with Facebook. And an example of what we're trying to do here is graph search, which is a product that enables you to tap into the social graph and all the information that's residence there to discover and learn more about people and places and products that you might be interested in through the eyes of people you're connected with on Facebook.

And this use case is already happening on Facebook today. People are going in and making posts to ask about what the best local restaurant is or where to go on vacation. But we think we can make it much better and easier for you to find that kind of information. And this is a really big technical challenge because of the amount of data we have available and it's going to take time for us to do. But it's a very important effort for us.

If you look all the way out over the 10-year period you asked about, probably the most important thing we can do is to contribute to wiring up the 3 billion to 4 billion people in the world who aren't connected to the internet today. So we're working on initiatives like internet.org and partnerships with other company to try and make the technology and the data available and affordable to people around the world. This is a big challenge and it's also a huge opportunity for us and a really important priority.

Heather Bellini {BIO 2268229 <GO>}

All right. And I would be remiss -- I was so excited to introduce them that I did not read the safe harbor. So Deborah Crawford, I do not want to have her upset with me. So I will just very briefly say that Sheryl and David may make forward-looking statements on future events.

David Ebersman {BIO 2425453 <GO>}

I may already have.

Heather Bellini {BIO 2268229 <GO>}

He may have already.

Sheryl Sandberg {BIO 15339456 <GO>}

It's a retroactive statement.

Heather Bellini {BIO 2268229 <GO>}

But this is retroactive, as well as the business strategy or prospects of Facebook. Facebook cautions you to consider the important risk factors that can cause results to differ materially from those in the forward-looking statements. These risk factors are described under the caption Risk Factors on Facebook's annual report on Form 10-K filed on January 31 of this year.

And in addition please note that any forward-looking statements that Sheryl or David makes are based on assumptions as of today. And they undertaken no obligation to update these statements as a result of new information or future events.

So I apologize. My excitement got the best of me.

So Sheryl, switching to you, the Company has pivoted to mobile I think faster than anyone would have thought, except maybe you guys. Can you talk about how you see the opportunity unfolding over the next few years?

Sheryl Sandberg {BIO 15339456 <GO>}

Mobile is and has been a great opportunity for us. And I think when you think about it, every person in this room, each of us has a phone that has the computing power probably 100 times the computer that sent a man to the moon not so long ago. And it's an incredibly social device.

So we're going from a world where people were interacting with Facebook a number of years ago mostly on desktop to people carrying around this incredibly mobile and social device all day long. And that's a big opportunity for us. We go from getting 1 in 7 minutes in the US on the desktop to 1 in 5 minutes on the mobile phone. And so we're just much more a part of peoples' lives.

And as we focus on transitioning our product and building our business, we've had 3 core things we focused on to make the mobile business transition.

The first is really capitalizing on that transition. We had opportunities over the last 6 quarters to prioritize ads that were going into newsfeeds or ads that would be on the right-hand side. And we've prioritized the ads that were going into mobile so that we were really doubling down on the future of our business, even at the expense in some ways of the current things we were doing.

The second thing we've really focused on is increasing our advertiser base. Our ability to show you an ad that's relevant, that's meaningful for you is greatly increased by how many advertisers we have and how many ads they're running. And so we've worked with all of our brands, all of our marketing segments from brands, to DR, to our response, to developers, to SMB, small-to-medium sized businesses, to build our business with them so we have the demand we need for the inventory we have.

Then the third is really investing in our ad products. Three things within that, targeting, make the ads more relevant, measurement so that people could measure not just the clicks they were getting right from an ad but returns to in-store sales based on seeing our ads. And ease of use, making our ads easier to buy, easier to understand, easier to use.

Heather Bellini {BIO 2268229 <GO>}

David, there's been a lot of focus on ad load. What's the right rate to optimize growth? How do you think about it?

David Ebersman {BIO 2425453 <GO>}

Well I mean it wasn't that long ago that we didn't have any ads in newsfeeds. So as we started to introduce ads into newsfeed and to ramp up the number that we showed, we were facing some really interesting and important questions in terms of how the ads would perform and what the impact would be on the engagements from people who are using Facebook.

And I think one of the most important and positive things that happened for us in 2013 was how positively we could answer those questions. So as we increased the number of ads that we put in newsfeed, the ads continue to perform really well for marketers. Newsfeed ads work and they work really well.

Just as important or more important is the limited or negligible impact that we've had on engagement on Facebook as ads have ramped up. So we talked about some engagement stats on the yearend call and just how well that's going and how that increased over 2013. And Mark shared a specific data point that I think is really encouraging, which is one of the things that we do is we survey users. We're constantly asking questions, trying to understand how they use our product, what they like, what they don't like. And one question that we'll frequently ask is about their sentiment about ads.

And if you look at the feedback we got from people who use Facebook on that question, who use Facebook on mobile devices, that actually got better over the second half of 2013, even as the number of ads went up because we think we were really doing it deliberately and carefully and successfully. So it's been really a great experience thus far getting to where we are today.

Now looking forward, the number of ads in newsfeed is an important variable. But it's certainly not the only variable that matters and it's not a variable that we're focused on optimizing in and of itself. So we're also looking at things like the prominence of the ads we show, the positioning of the ads, the size of the ads, the format of the ads. And all of this goes into trying to find the right balance in terms of the experience and the benefits that we can offer to marketers and the best user experience, the best experience for people who are using the product. And we'll try to optimize across all of those things going forward.

What I think is definitely true is what we've said before. We're not going to continue to increase the number of ads in newsfeed looking forward the way we did in 2013. But what we are going to focus on that we think is more important and critical for us to continue to grow the business is the quality of the ads that we show. If we can get ads that are better targeted, higher quality, more relevant, we can bring more value to marketers and do so in a way that really contributes to the user experience.

You know our aspiration here is for the ads to be as engaging and as good as the organic content that you find shared by your friends. And that really -- that gets us to a place that's a really solid foundation for us to continue to grow the business from.

Sheryl Sandberg {BIO 15339456 <GO>}

And it's an interesting thing because when you have an ad that's really relevant for you, it's a great experience and you don't have the concern people have around things like ad load. We had a meeting earlier and someone here told us that he saw an ad either during the Super Bowl or right after and he loved it so much he showed his wife. That's the kind of experience -- it was actually the Coke America the Beautiful ad. Some people saw it running during the Super Bowl. It's an interesting case.

That ad was such a good experience for him that he wanted to show his wife, which is great. That ad ran on the Super Bowl at the same time Coke ran ads on Facebook to continue the conversation and engage the community around Facebook and had great results. And importantly the ad was of such high quality that for him, I don't know how many posts he actually sees on Facebook that he shows his wife. But I bet you it's not that many, which meant that that ad was really high quality which is great.

Heather Bellini {BIO 2268229 <GO>}

Sheryl, how should we think about public content on Facebook and can you give people a flavor of what you're doing here and why it matters?

Sheryl Sandberg {BIO 15339456 <GO>}

Facebook starts as friends' content. And there's a lot of friend content that happens. There's also more public sharing on Facebook than I think everyone is aware. A lot of people are sharing things publically. And a lot of people are participating in public conversations.

So there was a report put out yesterday by SecondSync. And they said that for a bunch of time, kind of 1 in every 4th person in some instances was on TV is also talking about that content on Facebook. And a lot of that sharing is happening synchronicively [ph] at the same time.

We look at public figures interacting with their community and their fans on Facebook. Big thing for us is Beyonce launched her album on Facebook a couple months ago. So sounds obvious now. But people don't launch albums just on Facebook and Instagram, they do press tours. And they have big distribution deals, et cetera. And all she did was launch on Facebook and Instagram. She didn't answer a single question to the press, just a couple of user questions on Instagram. And that album is doing incredibly well. And in those first three days when this was all they did to support it, broke every iTunes record.

Now obviously she gets a lot of credit because. But her team's decision -- it's probably a great album. But her team's decision to launch only on Facebook was about going directly to their fans and wanting to go directly and release their album in a way that was as close to their community as possible. And it worked. There was an enormous amount of activity.

And so we're really focused on continuing to enable private sharing, as David said. But also other forms of sharing such as engagement with public figures, engagement with public content. We rolled out hashtags. Some people may have seen trending topics on your homepage now. Those are things which help us surface and engage people in public content. And they're important for us.

Heather Bellini {BIO 2268229 <GO>}

Another question for you. Brand advertising is an area that you've said in the past is moving a little bit more slowly than I think you would have expected. What do you think the reason is for this and what helps accelerate the pace of adoption?

Sheryl Sandberg {BIO 15339456 <GO>}

The brand out of the big market. I don't need to tell this community that. This is \$300 billion plus every year. Very robust. And a lot of the money is not very well spent. The old adage which I think comes from the 50s of I'm wasting half my ad budget but I don't know which half, people still tell that joke. And it's still kind of true.

And so I think we have a really big opportunity here. We're definitely making progress. Our brand segment is growing as all our segments are. Every one of the global ad age 100 advertise with us over the last year. And they're pretty cyclical.

That said, these budgets move slowly. If 12% of consumer media time is being spent on mobile now, it's 3% of mobile ad budgets. The opportunity we have is to offer what is a pretty unique opportunity and then show that we can measure it.

We offer personalized marketing at an unprecedented scale. So the scale is there. 750 million people visit Facebook every day. If you were a brand and you bought a Super Bowl ad in the Super Bowl, you reached on average 112 million people. You can buy that on us any day in the United States. So we have that broad reach and people are using it.

But maybe even more exciting than that is our ability to do personalized marketing at scale. You can also buy on Facebook ads that reach 32 million people who regularly buy premium groceries. Or 25 million people who are in the market for dog food or dog products. And I'm assuming therefore have a dog. But we can tell you who the dog owners are, who's in the market for certain types of cars. And so you can do this much more targeted, much more personalized marketing. But also at pretty broad scale.

Then that only works if we can measure it. And that's where I think we've made some real strides in the last year and we're very focused on investing for the future. When we were measuring our ads a year ago, two years ago, we could tell you okay, this group of people saw Facebook ads, this group didn't. Here's the lift in brand metrics. Here's the lift in their sentiments. But we couldn't measure it all the way through to ringing the cash register.

And we're a new industry. We're not TV. We're not search. We have to prove it. And we should have to prove it because we take our clients by just in time seriously. We should earn every dollar we spend. And increasingly over the last year we've done the work and gotten the data to work in a privacy protective way that we can say okay, these households saw ads, these households didn't. Here's the spend increase. These people saw ads, these people didn't. Here's the spend increase.

And our job is to go client by client with the big ones, the branders, pound the pavement and prove those results.

A couple of years ago you could be a CMO in this country and not have a Facebook strategy or not even use Facebook and that was fine. Today you have to have a Facebook strategy. But if you talk to our early adopters, the people who are going bigger with us, they'll say yes, Facebook's driving real ad sales and we're really putting more resources against it. Then you can talk to some of our other clients where we're still much more in the introductory phases. But for all of them what's going to move them down the spending funnel is measurement.

If we can show them that the dollar they invested with Facebook drives in-store sales and online sales better or as well as anything else. And I think we can show them that, we're increasingly showing our clients that, I think we'll move the dollars faster.

Heather Bellini {BIO 2268229 <GO>}

We were talking earlier about the look-back videos and just thinking of the 750 million people that access Facebook every day. Can you kind of share with us the response you had to that as part of the 10-year anniversary?

Sheryl Sandberg {BIO 15339456 <GO>}

Oh, it was amazing. I'm wondering, how many people watched their look-back video here? So it was really incredible. We launched these videos, for those who didn't see it, it's your look back. So it's kind of your experience on Facebook 1 minute set to music.

Almost 200 million people watched it and 50% of the people who watched their own video shared it. And it really -- it did 2 things I think. It showed the power of the Facebook brand that, as I watched those videos. And I have to admit spent -- not wasted time of course. Facebook is never a waste of time. Maybe a few more hours than I had the other night watching other people's look-back videos, sending my friends private messages, where's your look-back video? Share it. I'm missing it.

But you really felt close to Facebook and you felt close to the people in your life that you could see this is when I joined, this was the picture that was most viewed or most people liked. And that was a just a really cool and personal experience. And I think we do touch people on a personal way.

I don't know if we've been historically that good at helping them see that. But I think we're focused on that and we're really focused there. And you'll see more from us there.

And the second thing is it's the power of virality. We bought no TV ads. We didn't advertise this at all. We showed people their look-back video and enabled them to share, which got people to watch it, which got them to download their own look-back video. And that is really exciting to see something go this viral and have this much impact.

Heather Bellini {BIO 2268229 <GO>}

David, all the areas of innovation you've both talked about cost money obviously. Being the --

Sheryl Sandberg {BIO 15339456 <GO>}

David never asks us about that. He's always like whatever you want.

Heather Bellini {BIO 2268229 <GO>}

No. Yes, exactly. Being the money guy, how do we think about Facebook's long-term operating margin profile?

David Ebersman {BIO 2425453 <GO>}

Yes. I have to digest Sheryl's insult first.

Sheryl Sandberg {BIO 15339456 <GO>}

I think it's a compliment. Isn't it a compliment?

David Ebersman {BIO 2425453 <GO>}

I think the starting point is that Facebook is still a really young company and we're still very much in investment mode. So we're looking to make the kind of investments that can help us continue to grow and continue to build the Company.

Having said that, what we try to do is to be really disciplined and to make sure every dollar that we spend in the business is spent well in terms of helping us to serve a customer and to create value. And really to force tradeoffs so that we don't take advantage of the fact that the business is growing quickly to invest in a manner that's unfocused.

We tend to think about the money we're spending in kind of 4 different buckets. Let me go through those for a second. The first is infrastructure. So the servers and the datacenters and the other technology that enables us to serve Facebook to everyone around the world who wants to use it quickly and reliably. These are investments that we need to make, that we want to make. They're critical to building the Company.

At the same time we spent a lot of time and a lot of money trying to make our infrastructure more efficient over the last few years. And that investment has really paid off. We have a great team of people working on this. They've invested in programs like the Open Compute Project that have helped us to bring forward major changes in the servers, in the datacenters. And improvements in how they work that have saved us over \$1 billion over the last three years.

And we're going to continue to make those kinds of investments to try and make sure that even though it's a compute-heavy business, we have an efficient infrastructure.

The second area that we think about is product development, or R&D. And R&D we want to invest in. Our future depends on our investing in R&D. But one of the things that we feel is very true is that R&D success is not about quantity, it's about quality.

It's about investing in the right things. And R&D for us is really about people. That's what we spend our R&D money on.

So if you look back over the last few years, purely from a financial standpoint we could have afforded to grow R&D more quickly than we did. So the rate limiting step for us was how fast could we grow it and maintain the quality bar that we felt was important so that we were hiring the right people and that we were prepared in terms of our management systems and processes to integrate them so that they could contribute and be productive.

And we really decided on the rate of R&D growth based on what we felt was the maximum we could grow without putting those things in our culture at risk. And we have a bigger R&D organization today than we've ever had before. Really look forward to seeing what we can build with that organization and continuing to grow it at an appropriately measured pace.

The last 2 categories of spend for us, the first is marketing and sales. The concepts here are similar to pretty much any company. We're trying to make the investments we need to make to bring the right level of customer demand in.

The only think I'd say is that because of the vision and commitment that people like Sheryl had in the early days to building as much as the product as possible, as much of the marketing and sales products as possible to be self-service, it's really scaled remarkably well.

So the vast majority of our advertisers come in to the system through their computers. And the investment we have to make in terms of spend to support them is just markedly low. It's a tremendously efficient business because early on we built something that could scale so well.

And we're trying to do the same thing on the G&A side, which is the fourth and last category I was going to mention. Obviously we want to spend as little there as we need to, to support the business. And we've been very aggressive in investing in the systems and technologies that can enable us to build a business that was over \$7.8 billion in revenue with a couple hundred people in our G&A organization. And we're really proud of that and hope to continue at that kind of trajectory.

So I think we're pleased with where we are. The fact that our GAAP operating margins in 2013 were 36% is terrific. I think even more important though, we're pleased with the returns we're getting on the spend that we made.

So if we think about the things we invested in, in 2013 that improved the quality of our mobile products, that brought forward new advertising support that helped us to bring more demand into the system, that made our infrastructure more efficient. All of these things really had a nice return that helped set us up for the future.

Looking forward, I don't know what our margin will be in the years to come because it depends on revenue growth and the investment opportunities that we have. We're going to make the investments that we think are important to building a great company. We also think that Facebook, because of the general nature of what we're building and who we are, has the opportunity to be a really profitable and high-margin business over time.

Sheryl Sandberg {BIO 15339456 <GO>}

One thing that's been really interesting if you do the story of Facebook, I think it's fair to say the story of the last five years is a story of a company growing up.

I remember when David joined 4-1/2 years ago. And he wanted to do a 3-year budget. And we looked at him like he was insane. A 3-year budget? I mean I'll be glad if I can predict 3 weeks. I've got quotas out to my sales team for three months.

But we made it a hacky-- he got me there, he was like we're going to do it as a hack-a-thon project. We have these hack-a-thon projects where people stay up all night. It's the first and only one I've ever done in my six years at Facebook but we did it. I went home at like 10:30, which is late for me. But we did it. And by morning we actually had a draft of something that became a really rigorous 3-year budget plan.

And David's focus on helping us build our business in a scalable way has been a huge part of what's happened and what's been just transformative for Facebook.

Heather Bellini {BIO 2268229 <GO>}

That was a good makeup for the comment before.

Sheryl Sandberg {BIO 15339456 <GO>}

The other thing wasn't even a --

Heather Bellini {BIO 2268229 <GO>}

I'm just kidding.

David Ebersman {BIO 2425453 <GO>}

So because it was so nice I'm tempted not to mention that the hack-a-thon started at 9 and Sheryl went home at 10:30.

Sheryl Sandberg {BIO 15339456 <GO>}

True. But I still had to stay up past my bedtime. Like I would have started at 6. But no one wanted to start at 6. So it's true. I was only there for an hour and a half. But I gave great insight in that hour and a half, really. I was super helpful.

Heather Bellini {BIO 2268229 <GO>}

Sheryl, you have more than a million advertisers using Facebook today and over 25 million small businesses with Facebook pages. Obviously that speaks to a massive opportunity in the SMB segment. But how do you see the market evolving if you look out over the next 3 to five years?

Sheryl Sandberg {BIO 15339456 <GO>}

I'm really passionate about the SMB segment. I have been since my Google days. It's often referred to by people as the Holy Grail of online marketing or digital marketing. If you could just get every small business online, look what a market you'd have.

But small businesses move online slowly and adopt technology slowly. And some really real percentage, I don't know, 30% to 40% of US small businesses probably don't have a webpage.

One of the things I think we have a strong competitive advantage in, in Facebook is that we are a product that is so broadly used by consumers. And it's the same product really when you're an advertiser.

So at 1.2 billion people, most of the people who own small businesses in the United States have profiles. Then they see posts from other businesses and they're like, oh, people are posting about their business, I should post about mine. Then they set up a business page which is free. And really the same process of setting up your profile. So it's easy. We have 25 million active small business pages globally. And obviously we're pretty scalable. We don't call 25 million people, they're just coming to us online.

And any opportunity we have that we have really focused on in the last year is converting more of them into being paid advertisers and then over time converting those paid advertisers into spending more. We dramatically simplified our ad products over the last year.

A year ago we would have said to a small business by posting on their page would you like to become an advertiser? And that can be a daunting task. Now if a small business does a page that gets good likes, we then say do you want to spend \$5 to promote that post? That's a much easier lift and now they're an advertiser. And once they see the returns we believe and we've seen that they'll hopefully continue to invest.

And so the process of getting SMBs online, Facebook's already doing on its own, which is fantastic. And now we have the opportunity to make our ad products simple enough and clear enough in terms of their return so that people can use them.

One of the happiest things I get to do is when I meet with our clients and I see businesses that are really completely grown on Facebook. There's this great cupcake, store is not the right word, cupcake company in DC. They have these trucks. They started off with one. They post what street they're going to be on, on Facebook and Twitter. They then ask people what flavors they want and where they want them to show up. Now they have 5 trucks, they employ a bunch of people. And they drive around selling cupcakes using only social media to promote it. It's pretty exciting.

Heather Bellini {BIO 2268229 <GO>}

One other question for you. You've played a key leadership role at critical development stages for 2 of some of the most powerful companies of the last decade. What have you learned about managing large organizations that grow rapidly and innovate even faster that maybe you could share with us?

Sheryl Sandberg {BIO 15339456 <GO>}

I guess probably 2 things come to mind. The first is mission. And everyone says that. Oh, we're a mission-based company. But I actually think some companies are mission-based companies and they mean it and it matters and it works.

Facebook's a very mission-based company. We are there because we believe there's a human universal, universal human desire to share, that sharing makes our lives better. For those of you, hopefully everyone, who are Facebook users think about your birthday before and after Facebook. The first year you're on Facebook and it's your birthday, it's like the lights are turned on. Everyone all of a sudden knows it's your birthday. And it's a really warm experience and it makes your life just a little bit different and a little friendly.

And I think we are hiring people and focused on that mission. And I think as one of the leaders in the Company, what David and Mark and I talk about and try to do is just never get tired of talking about the mission. You could talk about it all day, you could talk about it again the next day. And you have to keep talking about it so that you're focusing everyone on the right things. And we really do that. We take that to heart. And our 10th anniversary celebration was just one example.

The other thing is really ruthless prioritizations, that when you are growing it can look like the world has endless possibilities and people can get sloppy with resources. And you can decide to try to do everything. And we really don't do that. We try to figure out what really matters.

One of the ways we operationalize this is we run our teams by having goals and non-goals. So teams for the half -- we do it usually by half year, have their goals. And then often they have a non-goal. And a non-goal is something that's a really good idea that we don't have the resources to do to prioritize right now.

Now if a non-goal is a bad idea it doesn't help. But if it's a really good idea. So until very recently when we launched our ads test, our non-goal for the ads team was an ad network. Ad network's always been a good idea for Facebook. We have great demand for it from both the publishing side and the advertising side. But we had so much of our own inventory. And we still do, that it wasn't the most important thing to do.

And that really works as a prioritization formula because you can watch the ads team having conversations. And you'll see one person say to the other well that's a really good idea. Then the person will say oh. But it's not as good of an idea as an ad network and we're not doing that. Off the table and stay focused.

Heather Bellini {BIO 2268229 <GO>}

Last question, David, before we turn it over to the audience. And there will be 4 roaming mic's. Teen usage comes up all the time. If I talk to teens today they will tell me they spend a lot less time on IM and they spend a lot more time using Instagram Direct. Can you talk about the vision of the Company as you introduce these types of applications and how they have different use cases for people and how they're leveraging them?

David Ebersman {BIO 2425453 <GO>}

Well I think that as we imagine a world where we build off the foundation we have with Facebook and Instagram and Messenger and improve those products and bring other products forward, we want to make it easy for people to have the sharing experiences that they want to have. And the products will be built to try and accommodate making that experience as easy and rewarding as possible.

So Messenger's a really good example. Messenger used to exist within the Facebook core application. And it worked there. You could message people from it. But it took some effort because there was a lot in the application. You had to go open the application, wait for it to load, then go find the messaging part. And then send your message. And when you have a message to send someone, it's more -- it's a better experience if you can just quickly click, it loads, you send the message. And you're done.

The new standalone messaging app that we have allows you to do that much more easily, much more productively. So we're going to try and build -- the things we build will be targeted towards cases where we think people want to share certain kinds of content in certain ways.

What we will also learn as we launch these things is people may not use them exactly as we predicted. And then we can learn from that behavior as well and sort of take that back into our product development effort and capitalize on what we're seeing.

So an example of a product that's been fun to watch is a products called Groups that we have that allows you to share with a sort of semi-permanent group of people. Not

permanent in the sense you can't come in and come out. But it exists and you can stay a part of a certain kind of community, be it a soccer team or a band or something much bigger.

And we launched Groups something like four years ago. And it wasn't like in the first week or the first month it became a product that everybody used. But over time as it became clear what kinds of use cases it enabled and how rewarding it could be, what we recently announced is we have over half a billion people who use Groups over the last month. So it's just been a consistent sort of -- I don't know exactly how to describe it. But by people using it they introduced it to other people by including them in their groups, et cetera. And it's become a really successful product for us.

So our product development sort of flows from both directions. Very purposeful in terms of bring use cases forward that we think are important. And then very reactive to what we see in terms of the behavior of the people who are using Facebook.

Questions And Answers

A - Heather Bellini {BIO 2268229 <GO>}

With that, there are 4 mic's around the room. I think there's a question right up here.

Q - Unidentified Participant

Thanks. If you think about Facebook as a utility, \$120 a month for cable, \$10 a month for Netflix, what's the utility per user?

A - Sheryl Sandberg {BIO 15339456 <GO>}

Endless. I mean immeasurable. How can you measure this kind of happiness?

A - David Ebersman {BIO 2425453 <GO>}

Well I think that there's -- I don't know if you're asking the question from sort of the abstract sense of how would you think about that conceptually, which is something we've talked about. I mean, it actually comes up periodically in internal conversations and we try and sort of think it through. But it's hard to think through because we don't have the marketplace that gives you the measurement.

And I don't think we should. I mean Facebook being free is one of the reasons why it's grown to be 1.2 billion people. And I think it's been absolutely the right strategy to put as little friction as we possibly can between you discovering what Facebook is and experiencing it. Because when you experience it and see how it can make your life richer, more interesting. And more valuable, you want to use it more, in a way that I don't think we could describe our market with a price associated with it and get to the same outcome.

A - Heather Bellini {BIO 2268229 <GO>}

I think there's a mic right over there.

Q - Unidentified Participant

By the way I love Paper app.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Thank you. We love it too.

Q - Unidentified Participant

My Flipboard usage on iPad or iPhone was largely newsfeed from Facebook into Paper. So how has been the learning from the last week of inclusion [ph] on Paper and how people are using it and what kind of ads would be serving them?

A - David Ebersman {BIO 2425453 <GO>}

I can go first. It's a weekend. So what we have resembles the public feedback you can read in the app stores, which is really positive. So the early feedback's been great. It's a beautiful product. I encourage all of you to download it and use it. This is Paper if you couldn't hear the question. It's a lovely product. We look forward to seeing how it progresses in the months ahead. But way too early for us to pretend we have a lot of knowledge in terms of how people will use it.

A - Heather Bellini {BIO 2268229 <GO>}

There's one here. Sorry.

A - Sheryl Sandberg {BIO 15339456 <GO>}

And in terms of ads in it, when we launch products we are willing to invest for a long time before we put ads in. It's quite easy to see how ads could fit into that or any other similar service. But there's no reason for us to do that right now. We have so much to do with the current -- monetizing the current products we have.

Q - Unidentified Participant

Hi. Paul [ph] from Point Capital. Now my 17-year-old nephew right now spends about 4 hours a day texting to his girlfriend back and forth. He's not on Facebook really any more. He occasionally checks it but 4 hours a day on texting. So I'm trying to figure out what's your strategy on capturing the younger crowd that might be going to different kind of communication right now?

A - Heather Bellini {BIO 2268229 <GO>}

They're going to Instagram Direct.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Yes. So yes, well, Heather had a story about kids she knew going to Instagram Direct and explaining why they were using Instagram Direct.

So reducing friction in products is really important. One of the reasons Messenger became a standalone app and is doing so well, we've seen 70% growth in three months, is that taking it out of the main Facebook app and reducing the extra clicks to get from the Facebook app to Messenger makes a big difference with a form of communication that's this quick.

As David said, we think about the different types of sharing people want to do. There's a bunch of one-to-one sharing. There's a bunch of one-to-group sharing like small groups. There's a bunch of public sharing. And our goal is to build products that engage all of our users including teens so that they are actively sharing on Facebook.

Q - Unidentified Participant

The French president tomorrow, I understand he's a charmer, how are you and Google and Apple, whoever's there, going to defend the abnormally low tax rates that these companies pay in Europe?

A - David Ebersman {BIO 2425453 <GO>}

Yes. So Sheryl will be meeting with him but I will take the tax question. The first thing I'd say is our tax rate last year was in the mid 40% range. So I'm not sure we can be lumped in to having an abnormally low tax rate. The dynamic of what companies have built, which I think is consistent with how the tax law has always been written and interpreted is that profits are allocated based on where the valuable activities are taking place. And it's always been the case that countries have argued about what that split is.

So as you try to apportion what percentage of your profits should be attributable to activities in this country versus that country, it's been an argument that has been ongoing for as long as I've been involved in finance.

I think what's changed recently is just the nature of the government deficits in lots of countries has caused them to be more aggressive in the conversation. And that's something that we certainly are well aware of earlier in the process of building out our international tax structures than some of the companies you described.

Q - Unidentified Participant

Hi. Andrea Wasserman with Sole Society. We're an online fashion brander primarily online. Over here.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Oh, hi.

Q - Unidentified Participant

And we do as much advertising as we possibly can on Facebook but sometimes have a hard time scaling as a smaller business. And so I like your analogy of the Super Bowl and I'm wondering whether long term you see this being kind of the

Super Bowl of online advertising that requires a lot of scale and budget or whether you segmented the business sizes when you think about the advertising opportunities?

A - Sheryl Sandberg {BIO 15339456 <GO>}

We want to do both. And we're still in the early process of building the tools which enable that. It is a very scalable model for us that a lot of companies can come on and buy ads. We've taken some really good simplification steps in the last year or so. So it used to be that we would sell our products and then as our products proliferated we'd be asking you do you want to promote a page post [ph] ad? Do you want a page post [ph] ad? Do you want a right-hand column ad? Do you want a newsfeed ad?

And now we go in and if you go into our advertiser flow, we ask you what you're trying to accomplish. Do you want clicks? Do you want sales? Do you want likes? And we are trying to then help make the decisions for you, which is much easier of here are the products that will deliver the highest ROI for whatever your goals are.

I think as we do that, as we get better at helping people enable the products, we should make it very easy. And I'll take your card because we're happy to help you scale.

A - Heather Bellini {BIO 2268229 <GO>}

There's a question here and then there's one way in the back.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Never want to leave any money on the table.

Q - Unidentified Participant

Sheryl and David, when you were talking about the question about the 10-year vision, you mentioned the additional ways that you're going to be allowing people to share different types of content and the technologies that would facilitate that. Is there any vision in the Company that you can share with us on going beyond sharing and communication and actually allowing transactions to be done on Facebook platform? And if so, what advantages do you think it can bring for me to buy things, get things done through Facebook?

And I mean by transactions that are originated by the consumer. I don't mean advertisers pushing and then you allow people to buy through it. But is there a possibility down the line for me to be able to actually do things from within Facebook within reason that there's an advantage to do it rather than to go to Google or Amazon or Expedia or elsewhere?

A - David Ebersman {BIO 2425453 <GO>}

I mean what we've seen to date is a limited amount of that kind of behavior happening with the functionality that the product currently offers. So for example a

page making a post but then saying if you want this product message us, or something like that. Or you can do it as an individual.

So we do see some people using the power of the platform to stimulate transactions and commerce. We haven't yet found the sort of the product idea or the use case that we think fits most naturally and will work best for us to sort of make that even easier and for us to potentially participate in those transactions. Obviously it's the kind of thing that we're open minded to considering over time. But right now I think -- I mean we feel like we're in a pretty good position in terms of focusing on what we have built and making it better and creating experiences that are as engaging as Facebook is so we bring 750 million people back every day, they spend as much time with us as they do. And then leveraging that in terms of helping brands and products and companies to communicate with the people who are spending time with us.

So that sort of approach to building the business seems to be working well for us today and we're staying pretty focused on it.

A - Heather Bellini {BIO 2268229 <GO>}

Okay. The last question I think right there in the back.

Q - Unidentified Participant

Yes, hi. It's Kyle Jenkins from Wonkley [ph]. Sheryl, I thought your comments around measuring ads from actually seeing one on Facebook, making a purchase in a brick and mortar business, I'd like to better understand how do you guys do that today. But more importantly where do you want to be in 3 to five years with doing that?

A - Sheryl Sandberg {BIO 15339456 <GO>}

So our goal in 3 to five years or even before that is we want to be and we think we are by far the best -- we are by far the best mobile ad product out there today. And we want to be able to prove to all our clients the ROI that we think we deliver. And as we get more targeted we can increasingly deliver.

The way we connect the data is we've worked through a third party named Datalogic. What they do is they take customer data from a company. So they take it from a supermarket or a brick and mortar store, they take our data, they mix it together so that we can measure the results. They never give us the data from the retailer. They never give the retailer our data. So it's privacy protected for everyone. But we can then measure results. Because what they're getting from us is here's who saw the ad. And what they're getting from the retailer is here's the purchase price.

So you know, with this we were able to measure with Bud Light that they reached I forget. But a good chunk, a large percentage of the US population with 1 ad they did. And they increased their purchasing in US households by 3.3%.

Anyone who's been in the ad business, that's a lot for a product that's very well known. And we were able to connect that to who had seen the ads and who wasn't.

We're still not doing that with every ad campaign. We're far from it. We've done about 100 studies with different partners and we're still -- we have a long way to go in terms of targeting and in terms of measurement.

But I think the personalized marketing at scale, the ability to do broad reach like Coke is doing with the Super Bowl on Facebook. But also target to specific demographics, separate out your current customers from your hopefully future customers, segment out the different things you want to share with different people. And enable that to go viral, gives us a really big opportunity as long as we can continue to scale the measurement. And so we're really focused on that.

A - Heather Bellini {BIO 2268229 <GO>}

Okay. With that we are out of time. Thank you, everyone for coming. Thank you, Sheryl and David.

A - Sheryl Sandberg {BIO 15339456 <GO>}

Yes. And we want to say thank you. We really appreciate everyone's time here. Your time is really valuable and thank you for investing in us.

A - Heather Bellini {BIO 2268229 <GO>}

Thank you, again.

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