

Facebook To Acquire WhatsApp

Company Participants

- David Ebersman, CFO
- Deborah Crawford, Director IR
- Jan Koum, CEO
- Mark Zuckerberg, Founder

Other Participants

- Anthony DiClemente, Analyst, Nomura Securities
- Brian Weiser, Analyst, Pivotal Research
- Doug Anmuth, Analyst, JPMorgan
- Eric Sheridan, Analyst, UBS
- Justin Post, Analyst, Merrill Lynch
- Mark May, Analyst, Citigroup
- Robert Peck, Analyst, SunTrust
- Ross Sandler, Analyst, Deutsche Bank
- Unidentified Participant, Analyst, Unknown
- Youssef Squali, Analyst, Cantor Fitzgerald

Presentation

Operator

Thank you for joining us today to discuss Facebook's acquisition of WhatsApp. Now, I'd like to turn the call over to Deborah Crawford, Director of Investor Relations at Facebook.

Deborah Crawford {BIO 5934723 <GO>}

Thank you. Good afternoon. Welcome to the call and thank you, everybody, for joining us on such short notice. Joining me on the call today are Mark Zuckerberg, CEO of Facebook; Jan Koum, CEO of WhatsApp; and David Ebersman, CFO of Facebook.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements and actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in today's press release and our annual report on Form 10-K filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and we

undertake no obligation to update these statements as a result of new information or future events.

And now, I'd like to turn the call over to Mark.

Mark Zuckerberg {BIO 15103277 <GO>}

Thanks, Deborah. And thanks, everyone, for joining us today on such short notice. I'm excited to announce that this afternoon we entered into an agreement to acquire WhatsApp. The combination of WhatsApp and Facebook will allow us to deliver new and engaging mobile experiences, connect many more people around the world. And achieve our mission of giving people the power to share and making the world more open and connected.

Over the last couple of years, Facebook has been on a journey towards becoming a mobile company. Our goal is to connect everyone in the world and to do this we've invested in delivering great mobile experiences like Instagram, Messenger and, of course, our core Facebook apps on iOS and Android. We've made great progress here and 945 million people now use our mobile products every month and 556 million of those people use them each day.

As I said in our last earnings call, our goal for Facebook over the next few years is to deliver a set of new mobile products that allow people to share any type of content with any set of people they want. We want to provide the best tools to share with different-sized groups in a different context and to develop more mobile experiences beyond just the main Facebook app, like Instagram and Messenger. This is where we see a lot of new growth as well as a great opportunity to better serve our whole community.

WhatsApp fits this vision perfectly. Then the combination with Facebook will help strengthen both services. WhatsApp is an extremely high-quality product with incredibly strong engagement and rapid growth. It doesn't get as much attention in the U.S. as it deserves because its community started off growing in Europe, India. And Latin America but WhatsApp is a very important and valuable worldwide-communication network.

In fact, WhatsApp is the only widely-used app we've ever seen that has more engagement and a higher % of people using it daily than Facebook itself. After doubling in size in the last year, more than 450 million people now use WhatsApp monthly and more than 1 million new people are signing up every day.

Based on our experience of building global services with strong growth and engagement, we believe WhatsApp is on a path to reach over 1 billion people worldwide in the next few years. Internet services that reach 1 billion people are all incredibly valuable and we believe WhatsApp will be as well.

Our focus will remain on connecting more people and increasing engagement but, over the long term, we look forward to seeing what the team can do to build a really great business. We expect them to bring the same quality and innovation they bring to the rest of the product and the successful subscription model they already have in place is a promising start.

As Facebook works to connect the entire world and to build the infrastructure for a global community, WhatsApp will clearly help accelerate our progress. Jan and the team have built a product that is simple, fast, reliable. And a really great experience for people. It's a great model for our own mobile development process.

WhatsApp also complements our services and will add a lot of new value to our community. People use WhatsApp as a replacement for SMS to communicate with their contacts as well as small groups of people. Our communication products like Facebook Messenger and Chat are used mostly for chatting with your Facebook friends and often sending messages that aren't necessarily real-time. These are both different and important use cases and we're going to invest in both to serve both use cases better.

We're committed to building and operating WhatsApp independently. Their product roadmap is very exciting and it's not going to change. We will work hard together over the coming years to help WhatsApp grow even faster and reach many more people. As part of this, we expect that, over time, WhatsApp will help us make progress in our mission to connect the entire world through things like Internet.org, by supporting our goal of delivering basic internet services to everyone in the world at affordable prices.

Overall, I'm very excited about this deal and I think it will be great for the Facebook and WhatsApp communities as well as for both companies. WhatsApp had every option in the world so I'm thrilled that they chose to work with us. I'm looking forward to what we can achieve together and for the opportunity to develop great new mobile products that serve even more people around the world.

On a personal note, I've known Jan for a long time and I know that we both share the vision of making the world more open and connected through the services we build. Jan's team has done amazing work over the last five years and they should be really proud of everything they've accomplished. I can't wait for them to join the Facebook team and I look forward to partnering with them to continue achieving amazing things. I'm particularly happy that, as part of this deal, Jan has agreed to join the Facebook board and partner with me to shape the future of Facebook as well as WhatsApp.

Thanks again for taking the time to join us today and now I'd like to hand it over to Jan.

Jan Koum {BIO 17854849 <GO>}

Thanks, Mark. I'm delighted that WhatsApp is joining Facebook and I'm really looking forward to working together. This is an incredible moment for me and the entire team and I want to start by just thanking them.

Over the last five years, our team has grown WhatsApp into a product used by hundreds of millions of people, achieved many new innovations in mobile. And created a world-class product development organization. This moment would not have been possible without the hard work and the dedication of a lot of amazing people and I look forward to sharing the next chapter of WhatsApp history with you.

When Brian and I started WhatsApp, our mission was to build a product that could solve something fundamental; to make real-time mobile communication an experience that was simple, powerful, instantaneous and commonplace. Our goal was to build a service that could be used by everyone across every platform and every phone and that would be a better alternative to SMS as well. We wanted a product that people could use easily and quickly to communicate with all the contacts in their phone and also with groups of people.

As a result, what we've achieved speak for themselves. Every day over 19 billion messages are sent on WhatsApp. Over 600 million photos are shared. Our community is growing rapidly with over 1 million new users joining every day and in key growth regions, WhatsApp has become an important communication tool and part of daily life with incredible growth and penetration.

WhatsApp has achieved much of what we set out to do but we still have a lot more work to do. That's why I'm very excited for us to be combined with Facebook. Facebook gives us a chance to turn WhatsApp into a service that reaches even more people and creates even greater value for our users. Facebook is a social network and offers many different and important functionalities than WhatsApp offers as a communication service and we're excited to benefit from the unique expertise, knowledge. And infrastructure that Mark and the team have built out over the last decade.

We think this will open up many new possibilities for our product and community. I'm pleased that's WhatsApp will continue to operate independently and autonomously. It's important for all of us that the team keep working with the pace and energy of a startup. But we're also extremely confident that Facebook culture and approach to innovation will be a great fit for us.

I've known Mark for a number of years and I've admired the way he's kept Facebook moving fast and innovating, even as the Company had scale. And I think this will be a model for the way we think about our future as a company too.

I'm excited for our future and I'm confident that the combination of WhatsApp and Facebook will allow us to do amazing new things together. I'm very gratified for this chance to keep our team together to continue building and scaling the product.

And now I'd like to hand it over to David.

David Ebersman {BIO 2425453 <GO>}

Thank you, Jan and good afternoon, everyone. Let me start by briefly reviewing the details of the transaction.

Facebook will acquire WhatsApp for approximately \$16 billion, consisting of \$4 billion in cash plus 184 million shares or approximately \$12 billion worth of our stock. In addition, we will grant \$46 million RSUs worth approximately \$3 billion to the WhatsApp employees including their founders that will vest over four years subsequent to closing. The stock and RSUs we will issue to WhatsApp will represent 7.9% of Facebook's shares based on current shares and RSUs outstanding.

The deal was unanimously approved by the boards of directors of both companies and has already been approved by the WhatsApp shareholders. The transaction is subject to regulatory approvals and we currently expect it to close later in 2014.

As Mark said, we're really excited to be announcing this acquisition. WhatsApp is an extraordinary asset, a clear technology and market leader in a very important space. They have a network of over 450 million people using the service each month and 70% of them are active on a given day.

And just as important, is how rapidly the network continues to grow. We believe WhatsApp is on a path to grow to over 1 billion people using the service and that networks of this scale and engagement are incredibly valuable. Given the size of their network and the value they provide to people who use their service, we're confident that, over the long run, WhatsApp will deliver significant returns for our shareholders.

Now, let's open for questions.

Questions And Answers

Operator

(Operator Instructions) Eric Sheridan, UBS.

Q - Eric Sheridan {BIO 22465717 <GO>}

Thanks for taking the question, guys. Two quick ones. One, is there any way you can give us some color around the transaction itself? Was this a competitive process or was this purely a discussion between Facebook and WhatsApp over the last couple of weeks and months?

And second, longer term, Mark, maybe you can help us understand how the companies will work together under the Facebook umbrella and how might their

goals at WhatsApp be achieved both independently and working more closely with Facebook. Thanks.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Sure. So I can take the first one. Jan and I have known each other for a couple of years and we've been talking about all the different things that we could do together and how the world will evolve in terms of communication and in social networks and he's been a valuable thought partner the whole time.

Last Sunday evening. So about 11 days ago, I proposed that if we joined together that that would help us really connect the rest of the world and could help out with things like Internet.org by bringing these two communication tools that are very different together. And he thought about it and then, over the course of the week, came back and said that you were interested and -- feel free to add any color here that I'm missing from you. Then we discussed the price later in the week and we came to terms that were agreeable to us and I think we just decided to go forward from there.

From my perspective, both David and I have said this. But we think that WhatsApp is on a clear path to have 1 billion people using their product. And services in the world that have 1 billion people using them are all incredibly valuable. And from that perspective, we just think that -- and the growth rate that they have today and the monetization model that's early but is promising and in place that they have, we see a pretty clear trajectory ahead and we were just very excited to work together on this.

What was the second question? Oh, on how to integrate. I mean WhatsApp is going to operate independently. That's a really important thing here. We want to do this the same way that we did Instagram. We feel like we've learned from the Instagram experience. This is obviously a bigger scale, much bigger scale. But a lot of the lessons there -- we weren't sure at the time how well it would work or if, in practice, a company really could join and be as independent as what Kevin and I were discussing. And what we found is that it really can work and I think Kevin would say that he's gotten a huge amount of value out of being able to use Facebook infrastructure and recruit and have Facebook employees join and that's just been very valuable to him in scaling.

And that's going to be the model that we use here too. So whatever services and employees that Jan would like to join WhatsApp, we will be able to do and we're not going to push very much. And Jan and I are going to continue to be in dialogue about the strategies of the overall company and what we want to do.

Operator

Doug Anmuth, JPMorgan.

Q - Doug Anmuth

Great. Thanks for taking the question. Jan and Mark, I'm hoping you can talk a little bit more about monetization. You mentioned in the early stages here at WhatsApp. But also, Jan, just curious on your thoughts going forward about ads on WhatsApp. I think you've been a little bit more averse to advertising in the early days of the service. Hopefully, you can talk about that going forward. Thanks.

A - Mark Zuckerberg {BIO 15103277 <GO>}

So let me start off and then I guess Jan is going to jump in. Our explosive strategy is for the next several years to focus on growing and connecting everyone in the world. Then we believe that once we get to being a service that has 1 billion, 2 billion, maybe even 3 billion people one day, that there are many clear ways that we can monetize. But the right strategy, we believe, is to continue focusing on growth in the product and succeeding in building the best communication tools in the world.

So that's actually one of the big reasons why it makes sense for WhatsApp to join us is that, as an independent company, they wouldn't have been able to as purely focus on growth, whereas now we can really help them out a lot with that.

But I'll hand it over to Jan to talk about monetization. I don't personally think that ads are the right way to monetize messaging services and I know Jan shares this philosophy. So why don't you go into that?

A - Jan Koum {BIO 17854849 <GO>}

Yes. Absolutely. I think I've talked to Mark about it a number of times and I have talked about it in our blog. We think that for our product for messaging, advertising is not necessarily the right thing to go. We feel that we actually have a very solid monetization system in place that helps us create a direct relationship with our user and our customer.

And as WhatsApp really focuses on growth, monetization is not going to be a priority for us. And this is why actually we respect Mark and his vision, is that he thinks very long term on everything thing they do at Facebook. They focus on something that is not just tomorrow but something that is five or ten years from now.

And that's the same with our company. We always talk about where mobile is going to be, not today, not next year. But in 2020 or in 2025. And as we look forward to the next five, ten years, 5 billion people will have a smartphone and we have a potential to have 5 billion users potentially giving us money through the subscription model.

So we really, really are excited about the growth today and the potential of where it's going to be five, ten years from now and we're not really concerned about monetization today. We're focused on the growth.

A - Deborah Crawford {BIO 5934723 <GO>}

Next question.

Operator

Mark May, Citigroup.

Q - Mark May {BIO 4280734 <GO>}

On the monetization side and the subscription model, can you give us a sense of -- I know that you're less than a year into introducing the subscription plan but what has been your experience in terms of conversion rate from free to pay, given that it sounds like that, for the foreseeable future, that's how you'll fund the investments in the business at least partly and what your expectations are for conversion going forward?

Then a question for Mark. Can you give us a sense of what portion of WhatsApp's active users overlap with Facebook users and what portion of them are using Facebook to connect their profiles and their social graph on WhatsApp? Thanks.

A - David Ebersman {BIO 2425453 <GO>}

Hi, Mark. This is David. I can take both of these, actually. In terms of monetization, as Jan said, their priority at WhatsApp has been and will continue to be building out and growing the network and getting people engaged with the service and bringing as much utility as they can. So as you know, they've rolled out subscription to some users in some countries and it hasn't been and won't be the top priority to optimize revenue in the short term.

In terms of overlap, we really don't know. I mean we would imagine, based on the penetration rates of the two products that, obviously, in places there must be a level of overlap but we don't have the analytics or the knowledge to quantify that at this point.

A - Deborah Crawford {BIO 5934723 <GO>}

Next question.

Operator

Justin Post, Merrill Lynch.

Q - Justin Post {BIO 3469195 <GO>}

Thank you. Mark, maybe you could talk about why you're going to keep the businesses separate. And is there any way to leverage the WhatsApp usage to increase usage of Facebook or do you even see that as a need? Thanks.

A - Mark Zuckerberg {BIO 15103277 <GO>}

So this is our operational strategy in the Company, not just the acquisitions that we do. But we want to keep all of the different apps and experiences, we want the people who are running them to have autonomy. We have many different products

at this point and we have a lot of really talented people running them. And that's just the kind of standard operating structure that we have at our company. So from that perspective, I feel quite comfortable that this is the right way to go.

And the big question when we did the Instagram acquisition was; would it work to bring an outside company into that model? And what we've proven, at least to ourselves and we think the results there initially are quite good as well, is that, yes, that works.

So Jan. And Brian as cofounder, are clearly amazingly talented. I mean with 50 people at their company, they've built a product and a network that has almost half-a-billion people actively using it in five years. No one in the history of the world has done anything like that before. So I frankly think that, even if this weren't the standard way that we were doing it, that it would be pretty stupid for us to interfere in a big way.

Now, that said, I mean Jan and I also know each other really well and have a great degree of trust and our strategic thinking overlaps a lot. So I think that what you'll find is that there will be different ways that the organizations can work together to accelerate each other's growth or to link in different ways over time, maybe, if we think of something, although that's not the plan upfront. And I think that there's going to be quite a good deal of benefit that the two get from being connected.

A - Deborah Crawford {BIO 5934723 <GO>}

Next question.

Operator

Ross Sandler, Deutsche Bank.

Q - Ross Sandler {BIO 15948659 <GO>}

Thanks, guys. Jan, can you talk about how the product may evolve from its current state, one-to-one or one-to-many messaging? Are there other product areas that look interesting to you that you see out there?

Then I guess a question for Mark or Jan. WhatsApp has actually moved ahead of Facebook Messenger in many countries. Can you just give a sense of what are the strongest countries for WhatsApp versus Messenger and kind of how you see those two coexisting. Thanks.

A - Jan Koum {BIO 17854849 <GO>}

Sure, absolutely. I think we will try to not talk about the product roadmap today because we've historically not done it and we don't usually talk about our upcoming features or our upcoming releases. But what's important to understand and what Mark has mentioned previously is that WhatsApp will stay independent and WhatsApp will continue to operate autonomously.

We have certain goals we've set out for ourselves in general at WhatsApp on what we want build into our product this year and we will continue to execute on those goals. Those goals include making our product better, faster, more efficient. And we care about details and we will continue to focus on those details. So not necessarily very sexy but things like message speed delivery and application reliability and battery life and bandwidth usage, all that matters on a smartphone. And that's always been our focus and it will continue to be our focus.

So you will see our product evolve. It will have new features added to it in the next 12 months. We will continue to upgrade independently and autonomously and we will continue to add features we actually planned to do earlier this year, over the next 12 months. So that's not changing but, over the next 12 months or 24 months, our product will evolve and it will become better.

A - Mark Zuckerberg {BIO 15103277 <GO>}

And in terms of how Messenger and WhatsApp are going to coexist, our thinking on this is that they actually serve fairly different use cases. So Messenger, what we've seen, evolved from Facebook Chat, which was more of instant messaging, not SMS and it's widely used today for chatting with your Facebook friends. And a lot of the messages are not real-time. They're someone will send someone a message and then, almost like a more informal email. And then expect a reply later in the day.

WhatsApp evolved from this model of really replacing SMS. It's a service for very quickly and reliably real-time communication with all of your contacts and small groups of people. And we think that those are two pretty big and different use cases and that the world needs both and that we're going to help our community the most by continuing to invest in both.

So Jan is saying that WhatsApp obviously has their roadmap and is going to keep on pushing on that independently. Similarly, the Messenger team is going to continue with their roadmap exactly and they're going to continue operate independently as well, with the team that today inside Facebook.

Operator

Mark Mahaney, RBC Capital Markets.

Q - Unidentified Participant

Hi, it's Kevin on for Mark. Do the demographics of WhatsApp users skew younger than for standalone Facebook?

A - David Ebersman {BIO 2425453 <GO>}

Hi, Kevin. If you look at the kind of penetration that WhatsApp has achieved, it sort of goes without saying that they have good penetration across all demographics, we would imagine. But it's not a service that asks you to tell them your age when you sign up.

A - Deborah Crawford {BIO 5934723 <GO>}

Next question.

Operator

Anthony DiClemente, Nomura Securities.

Q - Anthony DiClemente {BIO 21089686 <GO>}

Thanks. Sorry if this was asked already but can you provide what percentage of the existing 450 million MA user are paid versus non-paid? Then, just as a follow-up to the last question, can you give us any sort of breakdown as to how the geographic user-ship of WhatsApp compares to the geographic user-ship of Facebook? Thanks.

A - David Ebersman {BIO 2425453 <GO>}

No. We don't have those details to share today. As we've talked about in terms of monetization, it hasn't been the top priority for the Company and won't be. So as they roll this out in sort of country by country as they choose, we'll learn more over time but I'm sure they'll do that slowly and thoughtfully.

And we don't have data to share on the geographic breakdown.

Q - Anthony DiClemente {BIO 21089686 <GO>}

Okay.

Operator

Youssef Squali, Cantor Fitzgerald.

Q - Youssef Squali {BIO 1506420 <GO>}

Thank you very much. Just a couple of clarifications. David, can you just help us maybe understand just the basis for the valuation you got to? And I'm assuming it was a competitive bid but maybe just any more color on that would be very helpful.

Then, in terms of growth, while you're not releasing any maybe split between international and domestic, where most of that growth is coming from. Is it mostly international or is it really split evenly domestic and international? Thank you.

A - David Ebersman {BIO 2425453 <GO>}

Sure. So let me take the second one first. I mean you can't be growing at a pace like that without growing pretty broadly around the world and that's what's happening with this service. So it's extremely impressive how they're executing.

In terms of valuation, as we've discussed in the remarks, the sort of primary thing that we focused on was just how healthy this network is and how well it's growing and

our confidence that, if you have a network of this size with people who are as highly-engaged as customers are with WhatsApp, that they're really on a path to get to be a network of 1 billion people or more in a relatively short period of time. And so we looked at other networks that have achieved that kind of size and scale and what kind of value that they've created and what they're worth and that helped give us a framework for thinking through what might make sense here.

The only other thing that I would add is that this service they provide is tremendously useful to people and we've always believed that, if you bring a lot of utility into the marketplace, that sets you up to build a great business over time. If you think about messaging, it's the number-one activity on smartphones. As Jan said, there's 1.5 million to 2 billion smartphones out there today. That's going to grow to 3 billion, 4 billion, 5 billion smartphones over time.

And they're already at a place now where the messaging volume running through WhatsApp is nearly the same as the scale of the entire telecom SMS messaging volume and that's \$100 billion business for carriers in terms of direct messaging fees. So this is a really valuable service that people are willing to pay for.

Operator

Brian Weiser, Pivotal Research.

Q - Brian Weiser {BIO 3295042 <GO>}

All right. Thanks for taking the question. I was wondering are there any regulatory issues that you expect and certainly wondering if there's any more clarity you can provide around when you expect the transaction might close.

A - David Ebersman {BIO 2425453 <GO>}

Yes. So we're confident that we will attain regulatory approval and our planning to close the transaction later in 2014. There's not really a lot more to say on that front.

A - Deborah Crawford {BIO 5934723 <GO>}

Operator, we have time for one last question.

Operator

Robert Peck, SunTrust.

Q - Robert Peck {BIO 2272241 <GO>}

Yes, Mark, could you maybe talk a little bit about the competitive dynamics? You've obviously got other large messaging platforms out there; LIME, WeChat, Kakao, Kik, etc. Could you talk about the technological moat around the Company? And have you been able to quantify any sort of data sharing and lift you'd get from sharing data back and forth? Thank you.

A - Mark Zuckerberg {BIO 15103277 <GO>}

Yes. I mean messaging is a very competitive space as you're saying. WhatsApp, I think is the clear global leader at this. If you go country by country, there are countries like in Korea or Japan where another messaging service is bigger but if you look across the world, I think WhatsApp is, in most countries, across Europe and Latin America, India, a lot of places in Asia; it was kind of the clear leader.

And I think a lot of this gets down to the details that Jan was talking about in an earlier answer where these guys just obsessively focus on simplicity and speed and reliability. When they go into a country, they don't rest until their service is faster than SMS and as reliable with, obviously, all the disadvantages that come with going over the data network instead of the voice network.

So that's, I think, the technical advantage that these guys have. It's a company of really hard-core engineers who are obsessing over perfecting messaging, not adding a lot of bloated features into a messaging app. And I think that that's the way that that's the right strategy. I think that's what people want. And over time, I think people are going to pay for that and want to pay for it and will be happy to, to pay for the best one.

A - Deborah Crawford {BIO 5934723 <GO>}

Great, thank you. Thank you, everybody, for joining us today. We appreciate your time and we look forward to speaking with you again.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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