

Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Dan Rose, VP of Partnerships
- David Wehner, CFO
- Unidentified Speaker, Analyst

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Unidentified Speaker

Thank you, everyone, for joining us this afternoon for our keynote presentations on Wednesday of the conference here. Before we get started, I have a series of risk disclosures I have to read through. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear as a handout available in the registration area and on the Morgan Stanley public website.

We have Facebook here, which we are delighted about. But before we get started, on behalf of Facebook, I would like to take this opportunity to remind you that during the course of this conversation, David or Dan may make forward-looking statements regarding future events and the business strategy and 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 risk factors are described under the caption Risk Factors in Facebook's annual report on Form 10-K filed with the SEC on January 28, 2016.

In addition, please note that any forward-looking statements that David or Dan make 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.

We are delighted to have Facebook with us today. We have both the CFO, David Wehner, as well as Dan Rose, the Vice President of Partnerships. First on David, prior to becoming the CFO in June of 2014, Dave served as Facebook's Vice President of Corporate Finance and Business Planning. Before joining Facebook, he was also the CFO of Zynga and prior to that he was also a managing director at Allen & Company, an investment bank focused on media and tech. Thank you. So much for joining us.

Dan is the Vice President of Business Development and Monetization at Facebook. He's responsible for Facebook's worldwide strategic partnerships and M&A. As head of product marketing for the Company's monetization efforts, Dan also leads marketing strategy for all of the advertising products that you see on Facebook.

He joined Facebook in 2006 after seven years at Amazon.com where he worked on a lot of different projects in business development including where he helped to incubate and develop the Amazon Kindle. He earned a bachelor degree at Harvard University and also attended the University of Michigan for one year and I'm very happy about that as a fellow Wolverine.

Dan Rose {BIO 16500367 <GO>}

Before I dropped out.

Unidentified Participant

Before he dropped out he was also a Wolverine. Thanks for joining us both you guys. This is great.

Dan Rose {BIO 16500367 <GO>}

Thanks for having us.

Unidentified Participant

So I want to start with you, Dan. So you are Head of Partnerships, Head of Operations. I guess a couple questions. What does that mean? What do you do? Then how does your team help build the overall Facebook platform and where it's going for the next three to five years?

Dan Rose {BIO 16500367 <GO>}

Sure. So there's kind of three functional roles here. There is the partnership function which I will describe in a second, M&A and then operations is the word we use to describe our customer support team, which is very different from the other two functions. But also an interesting challenge when you have over 1.5 billion customers that you are supporting.

I like to kind of describe what we do in the lens of our framework around our core business, some of the new businesses that we are building and then the long-term innovation efforts that we have.

The core business which is the Facebook app itself, there's a few different ways that we contribute to that through our partnership efforts. One is our media partners who publish content to Facebook, whether that is videos or news articles or celebrities who are publishing into Facebook.

We also distribute our app through mobile platforms obviously. That's the way most people get our application. And so our relationship with mobile companies, whether it is the carriers or the manufacturers, or the companies that build the operating systems, those are all really important partnerships to us as well. Then we have a developer ecosystem that we also manage around the partnership function.

In addition, obviously, the customer support piece of the Facebook application where we have so many people using the app and at times needing help is another really important part of what we do.

In terms of our next generation of products, these are new services like Instagram, our messaging products, WhatsApp and Messenger. Some of our nascent new areas that we are investing in like video or Facebook at Work, many of those have components that will rely on media partnerships. Instagram, for example, a lot of the content there comes from public figures and so we work to help them with that.

We support some of the work they are doing in commerce, some of the very early work there around our messaging efforts and our partnerships with payment companies. And Facebook at Work is a very new product that we are just investing in now. But my team is the team that's out talking to companies about adopting Facebook at Work. And if there is anyone here that's interested, let me know. It's a really exciting new product that we're building.

Then lastly on our long-term innovation efforts, we have three pillars there. We have our effort to connect everyone in the world through Internet.org. And that's very much a mobile partnership-centric effort for us. We were just in Barcelona last week at the Mobile World Congress talking to all of the global operators about that; our effort to understand the world through AI. And then our investments in VR and AR.

And across all of these, obviously, we've done different M&A that supports each of the different stages of growth of the different businesses that we are in. But that's kind of a way to think about what my team is responsible for.

Unidentified Participant

You are a very busy man. One of the specific products you mentioned that we get a lot of questions around is video. So can you just kind of talk about Facebook's video strategy. And how do partnerships kind of play a role in bringing more and more video consumption on the platform?

Dan Rose {BIO 16500367 <GO>}

Sure. Video is really exciting. I'm a surfer. So I love to talk about this through the lens of surfing. And I'm not a great surfer, I'm an amateur. But I know -- one thing about great surfers if you watch or surf yourself is that they do two things really well. Obviously, the first is that they ride a wave exceptionally well. But the other thing that's not as obvious is that they're really good at picking which wave to ride. And

the best surfers who win the competitions wait for the right waves and then get up on those.

And I think for Facebook, the story of the last few years has very much been about us riding the wave of mobile and smartphones. And we were a little bit late actually to identifying that wave kind of famously. But once we got up on it, I think we have been riding it very well.

And video we think is another really big wave that's coming. And it's early still. But we are investing a lot into it. We think it could be almost as big as the mobile wave that we've been on for the last few years. There is obviously a lot happening around video and the convergence of video in mobile devices.

So you are seeing this already in just the amount of video content that is showing up in people's News Feeds now, as we've kind of evolved as a service from starting out as a text-based service to photos being the predominant media type, to now video becoming much more of a predominant media type.

And we are investing in new ways for people to consume video like our suggested videos tests that we are running, which we can get into more. We are also experimenting with some new formats around video like Live, which we are also really excited about and we can talk about more as well. But in general, video is definitely a big wave and we are focused on really taking advantage of it.

Unidentified Participant

Then kind of the partnerships with content players or celebrities, how do you think about the video product evolving over time; whether it is Live or even just the standard streaming product?

Dan Rose {BIO 16500367 <GO>}

So I think one of the big innovations that we've done over the last year in audio is autoplay and News Feed and this idea that when you are scrolling through your feed and a video appears, that it can just start playing in line without having to click play. And that has really led to an explosion in the amount of video that people are consuming. And as a result, people who create video content have taken notice of that.

And the video content that we see in News Feed today is video that for the most part, people want to get out to a large audience. Facebook has a huge customer base and they want people to see what they are producing. And typically, the motivation for that is going to be that you have something that you want people to see because it is going to lead to some other behavior than you can ultimately make money from or get some other result from.

So Jimmy Fallon publishes his clips from his show because they want people to tune into The Tonight Show. The NBA publishes highlights from their games because they want people to go to the games or watch the games. Celebrities might publish because they want to build a big following so that when they get endorsements, they can sell that social media following to their sponsor.

So News Feed, there is a really nice alignment of incentives where great content comes in. Consumers love that because they love to consume that content. I mean some of the best content we have seen recently has been around the election from the candidates. They have obviously motivations for wanting that to be seen by a lot of people. Then Facebook benefits because people spend more time in News Feed consuming that.

The thing we have heard and that we are starting to experiment now is that in addition to getting their content in front of a lot of people, many of these media partners would like to be able to make money on Facebook. And we are just now starting to experiment with nascent ideas for how we could do that.

The two that we have done so far publicly are instant articles, where publishers can have their content hosted on Facebook. That enables us to load the articles more quickly, which eliminates one of the big friction points on mobile. Then they can sell the ads into the content and keep the revenue, or they can use Facebook Audience Network and share their revenue with us.

Then secondly, we have suggested videos where it's just a feed of videos. So if you're in your News Feed, you're seeing videos along with photos and other things. But if you just want to consume video, we have a new surface and suggested videos where you can just watch videos. And there's ads there and we share some of the revenue there with our partners who publish into that.

So historically, we have had a really nice alignment around News Feed. And now we are exploring new ways to drive alignment around monetization as well.

Unidentified Participant

Got it. This is probably a question for either one of you. I know you mentioned M&A, are involved in M&A. And M&A has certainly been kind of part of the way you've been riding those waves. It's almost like you've been opportunistically strategic in some of the M&A that you have done.

At a high level, talk about how Facebook analyzes M&A; what characteristics do you look for as you look at potential M&A candidates?

Dan Rose {BIO 16500367 <GO>}

I'll give you kind of the framework that Dave and I and the rest of the corp dev team use when we think about buying companies, which is kind of these four different

pieces that all really need to be in place for us to feel good about an acquisition.

The first is rationale. And this is really the critical piece of getting everybody internally on our side aligned on why we are doing the deal. And it seems obvious. But sometimes different people think we are buying a company for different reasons. And if you don't have that alignment, it can be set up to not be successful.

The second piece is alignment with the target. And here when we are talking about large M&A, for us it means really Mark being aligned with the CEO of the Company we are acquiring on why it makes sense for them to join us and what the vision is for when they are part of Facebook.

Probably the best example is WhatsApp where Jan, the founder and CEO of that company, really didn't want to sell it. And ultimately, the reason he chose to sell to Facebook was because he has a vision of everybody in the world connecting through his product. And we have a mission of connecting everybody in the world. And he and Mark really got aligned on that and realized that -- Jan realized that he could achieve that better as part of Facebook than on his own.

The third is integration, which is kind of the least sexy part but often the most important. And we try to strike a balance with giving companies autonomy to continue to operate, companies like Instagram or WhatsApp or Oculus. It's really important, these are companies that have had success before they became part of Facebook. And the last thing we want to do is slow them down or become a barrier to their continued success, while at the same time taking advantage of all of the assets and the things that we can bring to help amplify their growth and success.

Then the last is the price. And that's the one that sometimes gets the most attention. Dave certainly pays a lot of attention to it. And we all care and make sure that -- we need to make sure that when we buy a company, we believe that there is going to be a good ROI story behind why we would be willing to pay that price and what it's worth. But that kind of comes last. And the other three are very important as well.

Unidentified Participant

One of the bigger M&A -- I guess not even size-wise but certainly impact-wise -- has been Instagram. Dave, where are you now in kind of the Instagram monetization story? And I guess when you talk to advertisers or as advertisers look at the core business versus Instagram, how are they differentiating advertising objectives between the two of them? Then the big question is always incremental versus substitutive ad spend.

David Wehner {BIO 2419389 <GO>}

Yes, I would start with what Instagram brings to the table from an audience perspective. So we've got 400 million people on Instagram that complements the 1.5 billion people on Facebook. Obviously there's overlap there. But with those, we've got the two most important mobile audiences on the planet and I think advertisers

realize that and they've come to Facebook for good opportunities to reach those large audiences.

They are also slightly different in terms of how people use the product. So you are using Facebook to connect with people that you care about the content that you care about with public figures that you care about.

Then with Instagram, you're using it to connect but there's also visual inspiration there. So there's a slight difference in the character of the product and we see marketers using that when they develop content and advertisements specifically for Instagram. So we have seen a lot of that where marketers are working within the character and feel of Instagram and have been very successful. So we are excited to see that.

But importantly we are also operating these on a common (ads) infrastructure. So a marketer can come and use the same objectives. You can target website conversions or app installs or video views across Facebook and Instagram in a consistent way and in a measurable way that they can use the measurement across those platforms. And that provides a great deal of leverage for those marketers.

And so, we've seen 98 of the top 100 advertisers on Facebook are advertising on Instagram. We have got 200,000 advertisers on Instagram and now 3 million on Facebook. We would've never gotten to that level had we not been able to leverage the demand that we have on Facebook and brought that to Instagram.

So I think it's been really complementary and we're seeing both use cases where people are using very specific targeting on Facebook or Instagram and where they are going across both -- and good success across both of those. Advertisers like Microsoft have used kind of cross-platform Shutterfly, a lot of good success. So we are really liking where we are with that.

Now the question I think you had at the end was the substitution or the (incrementality). Whenever we look at the (ads) business in terms of whether it's bringing new demand to the ads business like video or bringing news supply to the ads business like Instagram or Audience Network, there's always going to be some amount of substitution effect, some amount of incrementality.

So you've always got to look at that and balance that out. So there's no doubt that when you -- especially in the near-term when you bring a bunch of supply on from something like Instagram, some of the demand is going to shift from Facebook to Instagram. And that's how we look at the business and model the business.

Unidentified Participant

The other sizable M&A was really around WhatsApp. How does WhatsApp kind of fit into the core Facebook use case over the next two to three years? And I guess at a

high level what's the difference in the core use case between Facebook Messenger and what you are seeing on WhatsApp?

David Wehner {BIO 2419389 <GO>}

Yes, I think there's a lot of alignment with the messaging products. But also there are differences. In terms of what it brings to the table I would go back to what was Dan was talking about with M&A and alignment. It's clear, when we look at the mission of Facebook to bring people the power to connect and share, that sharing is not just going to happen in one type of application like News Feed. It's also happening via messaging.

And messaging platforms are core to sharing whether it's one-to-one messaging or group messaging. And WhatsApp is very much aligned against that. So to really fulfill the mission, having the best messaging products out there is really critical and we think both WhatsApp and Messenger help us do that.

WhatsApp -- the team is squarely focused on growth. When we made the acquisition we were very clear that the goal number one was get to 1 billion users and WhatsApp and the team have delivered there and we're really pleased with the results. But the focus is still on growing that user base.

Ultimately these are very large reach platforms, 1 billion on WhatsApp, 800 million on Messenger. There is incredible distribution opportunities there, there's incredible utility values there. So we think there's a real potential to monetize these platforms in the long run.

How we are approaching it is looking at some of the same things we did with News Feed, which is connecting people with businesses via News Feed liking and following pages, connecting people with businesses in Messenger. And once we have those organic relationships and that utility built through those platforms, we think there is commercial opportunities that can build on that. But that's the initial focus. We are still very early and then as we experiment and learn we will be updating everyone on what we are finding out.

Dan Rose {BIO 16500367 <GO>}

I would just add to that. And this is just kind of interesting. Messenger has more of a Facebook network in terms of who you are messaging. It is most of your Facebook friends. WhatsApp tends to be more like SMS in your phonebook. So they're different in that respect.

And another way that they are different is WhatsApp from a product perspective is very utilitarian. There's not a lot of features. It's really just about sending messages, whereas the Messenger team has taken an approach of adding a lot of features and making it a more robust experience for people. So it's an interesting opportunity.

We didn't really design it this way. But it turns out we have an opportunity to experiment with both of these approaches and see which one long-term people really respond to. And I think they are both growing and they are both doing well. But it isn't yet entirely clear which of these two approaches is the right long-term approach for this type of a product.

Unidentified Participant

I know you mentioned early days in Messenger monetization and testing and things. But do those differences in use case, does that impact at all how you think about monetizing the two platforms long-term or (multiple speakers)?

David Wehner {BIO 2419389 <GO>}

I will say we are certainly working on experimenting in Messenger first. Part of the advantage of doing that is you already have 50 million businesses connected to Facebook and the Facebook graph. And so that very naturally fits with the Messenger product. So I think we've got some early advantage to doing experimentation and work there on Facebook Messenger.

We do see people using WhatsApp to communicate, businesses to consumers. So that's happening and there are some things going on there that are interesting. But I think Messenger is the one that we are going to be focused on sooner because of that base of small businesses that are already connected to the Facebook graph via the big page presence that they have.

Unidentified Participant

Coming off of super Tuesday and even you mentioned the elections earlier, if we step back, what's changed from four years ago to 2016 in how the politicians -- Donald Trump has changed things -- (multiple speakers). How has it changed over the last four years? Can you just talk about ways in which the politicians and the super PACs are using Facebook, both earned media and paid media, what they're doing now versus what they weren't doing? How has the product evolved?

David Wehner {BIO 2419389 <GO>}

Well I think it's very exciting, the election, certainly from Facebook's perspective because there's lots of interesting content being generated and shared on Facebook. It's an incredible platform for people to connect and they are connecting with politicians. There's conversations going on amongst friends about the election and so there's tons of interactions.

We have seen I think it's 75 million, 76 million people interact on Facebook around the election. So there's an incredible amount of engagement going on. And we think of Facebook as being the new Town Hall where this kind of conversation, this type of activity is taking place. And I think we really just advanced a long way from 2012 to

2016. We have got a lot more authentic raw content coming from the candidates on Facebook and I think it's very powerful and quite interesting and engaging.

On the ad side, I think it's -- we just have a very diversified business from an ads perspective. So no one vertical, whether that be politics, is going to drive the business. But I think on an engagement side we are really excited about what we are seeing. And Dan, (multiple speakers) you work with a lot of the public figures.

Dan Rose {BIO 16500367 <GO>}

Yes. It's interesting, there's no question that this election cycle, the candidates have really taken to Facebook as a way to reach their constituents. It's also the case that outside of the US this has been happening for a while. And even in the last cycle Obama was famously very social media savvy and used social media better than his opponents.

But in India, Prime Minister Modi has been connecting with his constituents and told us that that was a key part of his election. And in Indonesia we saw the same thing. It's been happening around the world.

One of the things that's different about 2016 is that this new video product that we've launched just in the last few months, the live video product where you can broadcast out to an audience real-time via your phone and video has really taken off with candidates and they love it.

And it's not just the candidates who are talking to their audience before they go on stage at a debate or afterwards. It's also the pundits. You've got Newt Gingrich who's basically got his own cable network on Facebook. He is going on after every single debate giving his real-time analysis. You have the Univision Jorge Ramos who is doing this from all of the different states.

Before Super Tuesday, you had Hillary's team using Facebook live to explain to people in caucus states how to caucus. It's a really powerful thing to be able to pull your phone out, turn it on and immediately reach people real-time via video. And I think that's one of the things that's really -- we launched that just as the election cycle heated up and the convergence of those is an interesting new trend.

Unidentified Participant

Yes. It's kind of like this is the -- the live this year's Ice Bucket Challenge of a year and a half ago.

Dan Rose {BIO 16500367 <GO>}

In some ways, although that was a really interesting moment and it certainly happened around the launch of autoplay. So that was something I think autoplay

video really exploded with the Ice Bucket Challenge. But it was also something that peaked and then went away and other things took its place.

I think what's happening with the elections now and live and the ability to reach an audience in real-time; I expect that that's something that will continue to expand in other elections in other countries around the world. I think that product really lends itself to this type of format.

Unidentified Participant

As we are watching Donald Trump go state-by-state through Facebook live, how do you think about monetizing that? Is it a standard pre-roll, post-roll? How do you think about monetizing that?

Dan Rose {BIO 16500367 <GO>}

I think it is really early and we'll figure that out later. The model we've taken from the very beginning --

David Wehner {BIO 2419389 <GO>}

(Multiple speakers) Jeb Bush buying ads for that (multiple speakers).

Dan Rose {BIO 16500367 <GO>}

That model didn't work so we'll try something else. We've always focused first on building these consumer products and getting them to scale and then start to think about how we make money from them. Dave was talking about our approach to monetizing. Our messaging products -- and that's very much kind of the mode we're in.

We've been focused on first building them to 1 billion users and then you think about okay, well how do you incorporate businesses and how do you make money from it. And that's what we did with Facebook in the early days of Facebook.

Live is -- in some respects it's just video content. And so that's something I think is relatively well understood from a monetization perspective. On the other hand it's different. People tend to watch it for longer periods of time. It's real time. So there's new aspects of it that we'll have to think about.

But we are not thinking about that right now. Right now we're just really investing in the consumer product and making it useful to people. And if we can get that to scale then we'll start exploring how we can monetize it.

Unidentified Participant

Keep investing ?; investment is always a big theme at Facebook, Dave. You laid out OpEx and some guidance and CapEx guidance for this year. Just talk about some of the key investment areas for Facebook as we go into 2016 and just kind of even longer-term areas where the capital is going to be deployed.

David Wehner {BIO 2419389 <GO>}

Yes, I think the two big areas are R&D and there it's a lot of -- it's hiring on the R&D front and CapEx and scaling the infrastructure to support the growth of mobile and video. So those are the two big themes. On the R&D side, it is what we've been talking about which is a big bulk of the investment is going to grow the core business which is funding all the teams that support the growth, the engagement, the monetization of the core platform.

There's lots of work we can do to make our ads more effective, better measurement, bringing more advertisers into the system, continuing to invest in the News Feed product to drive more time spent. So there's lots of investment areas and big teams that we have working on those to just drive the core business.

So I think that's -- when we look at our R&D dollars, that's where the bulk of it's going. Then we've got the next generation of services with Instagram which has obviously got a lot that we are pushing on there. We've got WhatsApp, we've got Messenger. We are building out obviously our video and search capabilities as well. Those all take significant investments to drive the outcomes we want to drive there.

So that's the second big chunk of investments that we have. Then finally, we've got the longer-term investments that we are making. We are putting a lot of weight behind those so that's Internet.org and the connectivity (labs) efforts, it's Oculus and VR and then finally it is our AI effort. So we sort of look at the full spectrum of what we are investing against those buckets on the RD side.

On the capital side, which we are seeing a big ramp up in the capital expenditure next year -- or this year, sorry, we've got a number of data centers that we are putting -- either expanding or bringing online. So we have got Fort Worth being built today. We're just starting underway on our data center in Clonee, Ireland. We are continuing to expand the data centers that we have and the footprints that those have, bringing more servers in to place.

Then the networking investments that we are making are pretty substantial given the amount of video that we are now moving around and things like Live and other video products certainly bring necessity to put more bandwidth into play. So there's big investments going on there.

So when you kind of put everything across, it is a substantial investment program. We are very excited about the investments we are making across the core, the medium-term and the long-term. And we think we are doing the right thing by investing in our infrastructure to be able to handle the potential growth that we see out there.

So we've got a big investment program. But we are excited about it. And also we've got a business that really puts us in a position to make those aggressive investments.

Unidentified Participant

The more live -- it just takes a lot more bandwidth in the data center for all the live video. I have a few more questions. We are going to open it up to audience Q&A after my couple more. So if you have questions feel free to raise your hand and there are mic runners who can bring you a mic as well.

We talked about the evolution of the platform and how there was no video and then there was the Ice Bucket Challenge and now we're watching live videos and what Hillary is up to today. Virtual reality is ? it's an area of investment, even Dave said it. How does virtual-reality kind of take the platform to the next level? What does the Facebook platform look like three years, four years down the road once we bring in VR?

Dan Rose {BIO 16500367 <GO>}

I think it is more than four years. I think VR is the kind of thing that we are investing in on a 10-year time horizon, that's why we include it in our long-term innovation efforts. It's very, very early days. But we are investing in it. We think there are a couple of trends that point to VR being something that will be big in the future.

One is this trend from media type text to photo to video to kind of more immersive video like 360 video which we see on Facebook itself and we are already seeing more and more 360 video being uploaded to the platform and that obviously in a VR environment becomes very immersive and very engaging.

Also from a computing perspective, computers -- the sort of big long-term trend over many decades is computers getting smaller and moving closer to our bodies. If you think about the mainframe moving to the PC to the laptop to the cell phone. Sort of the next logical extension of that is a computer that's actually like on your face maybe in front of your eyes that you don't even have to pull out of your pocket.

Again, it's early days and this is something that will take many, many years if not decades to become mainstream. But we want to invest ahead of that. We think that this type of experience is naturally a very social one because the ability to feel like you're in the same room with somebody who may be half a world away is very possible with VR. And so Facebook understands social applications and we think we can bring social experiences to that type of a platform.

And so, we bought Oculus. We have a team that is building some early VR hardware and software. We have a PC product called the (RITH) that's going to be shipping soon that plugs into your computer. And we have a mobile product that we partnered with Samsung on called Gear VR.

And so we are excited. We think that there is real potential here. But it is very, very early and we're just getting started. It's probably like the Palm Treo stage, if you will, of the mobile smartphone evolution for VR.

Unidentified Participant

That's a great reference. Any questions at all. Raise your hand if you have a -- a question in the front.

Questions And Answers

Q - Unidentified Participant

A question on video, that's clearly a focus. It seems to me that the video taking process actually hasn't been solved yet. It's still very difficult to take videos from a just lighting and sound and then also get the relevant stuff uploaded so people can quickly see it.

All these things seem still fairly difficult as just an average user as opposed to the picture, which I think has been solved. How do you guys think about that? Is that inhibiting the growth or you think that what we have right now in terms of hardware and solutions for video taking is enough to make that --?

A - Dan Rose {BIO 16500367 <GO>}

Yes, I think the fact that we can launch a product like Live and already have the amount of engagement we do is because everybody is basically now walking around with a video camera in their pocket, which just wasn't the case a few years ago. So from that perspective, it has come a long way and it's good enough for a lot of people to feel comfortable posting videos to their friends or to larger audiences.

That said, absolutely there's going to be a lot of innovation and improvement there. And to some extent I think the motivation for the manufacturers to make their cameras better, cameras that are integrated into the phones better, is the fact that there's now real demand for it.

When you have people like Newt Gingrich who is virtually basically now running his own cable television show through his iPhone, he wants it to look really good and that just wasn't necessarily a need before, to have professional grade video quality from an iPhone.

So I think you're going to see a lot more innovation around that and we are certainly motivated to want to encourage and support that as well. But it is at a level right now where it's good enough for a lot of this to be happening.

Q - Unidentified Participant

Maybe another question on video, which is just the completion rates of your video in autoplay. Is that a metric that you are optimizing towards or are you trying to maybe

encourage some sort of different behavior there? Thanks.

A - Dan Rose {BIO 16500367 <GO>}

We do publish it so we give people a sense of how far their audience is getting into their video so that they can think about as they create new videos how to do it in such a way that if they want people to watch for longer they can affect that outcome.

That said, it is a new format and what's interesting about it is the sound isn't on when somebody starts watching at first when it autoplays. And a lot of times people are watching videos for a short amount of time. And so it's almost requiring creators to rethink what it means to produce video for this environment. And a lot of them are getting really smart about producing shorter videos that don't require the sound to be on to get the message across.

You have things like subtitles; you have things like really pulling the highlight of the clip into the beginning. If you think about a movie trailer, the first thing you see on a movie trailer is the green screen with the ratings. Somebody sees that in their News Feed they're just going to skip right past it. So a lot of creators are rethinking video for this environment and we are seeing some very new cool innovative content being created.

Q - Unidentified Participant

Can you comment on how Facebook Messenger for business is working both as a proposition for businesses and for Facebook, the timing on which that's going to be a meaningful part of service and support interaction between businesses and customers?

A - David Wehner {BIO 2419389 <GO>}

Yes, I think we are really -- I'd characterize it as we are experimenting today on that. I think there's some really interesting work going on there. But I think it's too early to say when that's going to be a big impactful part of the business. There's just a lot of utility we think we can bring to businesses.

People don't talk on the phone anymore, they connect via text. There's not a great way for businesses and consumers to chat effectively and communicate effectively and we think messaging is a great way to do that. But there's lots of work that needs to be done there. The APIs don't exist there on the business side to be able to connect with consumers.

So we are doing a lot of work to build and look at what we can do to be effective with establishing good connections between businesses and consumers. But it's a lot of work. So we've got to do it, we've got to experiment with it. Like I mentioned earlier, one of the big assets we bring to bear is we already have a lot of businesses connected via Facebook and we see that as being an intrinsic asset for us to be able to bring to bear to help solve that.

So that's what we are doing. I think it's too early for us to kind of update on timeframes on when there might be an impact from that. But as we learn more we will certainly share it.

A - Dan Rose {BIO 16500367 <GO>}

I would just add quickly, I've been at Facebook for 10 years and before we had Facebook pages we had businesses creating profiles and hitting a 5,000 friend limit. And so we built a product to solve for that. And Dave mentioned earlier you have businesses on -- especially on WhatsApp today who are kind of connecting with consumers. But that's not really what the product was built for.

So a lot of this work is really just to enable some of the emerging use cases that are happening and make it a better experience for people. And that obviously has a path to being a business someday. But we are starting with how do we serve the needs that people are expressing they want to have.

Q - Unidentified Participant

Yes. Two questions. So WhatsApp was developed in part to get around censorship in parts of the world. So the first is what % of the world is non-accessible to you guys because of censorship? And because of this beginning does it mean that the opportunity to monetize the messaging is possibly bigger than many would believe?

A - David Wehner {BIO 2419389 <GO>}

Obviously the biggest country where we are not -- that we are not in is China, by far the biggest. So I think it's pretty much China, Iran and North Korea or something like that. So China is the big part of the world that we're not connecting via the platform today. And there there's no visibility on when it might be possible for us to be there. But it's something that obviously -- to fulfill our ultimate mission we'd love to be able to connect to people in China.

A - Dan Rose {BIO 16500367 <GO>}

In terms of the relative size of the businesses, I think what we believe, like Dave said earlier, there's kind of this spectrum of people wanting to share. Some of it is going to be through public posting, some of it's going to be through group, some of it's going to be through one-to-one sharing.

Part of the reason we bought WhatsApp is we want to be able to plan all of those and we are investing in Messenger as well for the same reason. I think it's hard to say which of those use cases long-term is going to be bigger.

I think we're seeing a lot of growth in the core use case that Facebook has a good position with public and group posting. And you are seeing overlap there with group messages and the type of functionality that WhatsApp and Messenger enable there. Then obviously there's one-to-one which is much more in the camp of messaging platforms.

And our view is that sharing -- the desire to share and connect is a universal desire and something that's going to continue to grow and we want to serve all of those needs through the products that we can offer.

Q - Unidentified Participant

I was surprised to hear you mention search is one of the investment areas. Can you talk about your ambitions and what you're trying to do there? Thank you.

A - David Wehner {BIO 2419389 <GO>}

Sure, I'll take that. Search is really about how do we enable people to discover the content that's been shared on Facebook? The content that's been shared publicly by everyone and then the content that's been shared by people that they are connected with and friends they are connected with. So I think it's really about how do we open up another avenue of engagement on Facebook.

If you can find content that you are interested in you can use search to discover it. Today the vast majority of what we are seeing people search for, as you would expect, is people. That's what they're using it for. But also using that to find content that you care about from the people that you are connected with.

And that's going to open up another opportunity we think for just people spending more time effectively in News Feed discovering content. So it's really about how do we just drive more engagement and utility from Facebook than it's about a search business in how we would think traditionally about a search business.

Q - Unidentified Participant

With that, I think we are against the clock. So thank you so much, Facebook, for coming. You guys are great, Dan, Dave.

A - Dan Rose {BIO 16500367 <GO>}

Thanks for having us.

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