

## Goldman Sachs Technology Conference

### Company Participants

- Dave Wehner, CFO
- Sheryl Sandberg, COO
- Unidentified Speaker, Unknown

### Other Participants

- Gary Cohn, COO, Goldman Sachs
- Unidentified Participant, Analyst, Unknown

### Presentation

#### Unidentified Participant

Thank you, everybody. Sorry for the fire drill. It is funny. So we are honored to have -- we have several distinguished panelists amongst us today. Gary Cohn, COO and President of Goldman Sachs; Sheryl Sandberg, COO of Facebook; and Dave Wehner, CFO of Facebook. Gary is going to moderate today's session. And so we don't use up anymore time, I'll kick it over to you.

#### Gary Cohn {BIO 4736079 <GO>}

Do you need to read?

#### Unidentified Participant

Oh, yes, I do need to read.

(multiple speakers)

Unidentified Participant: You lawyers at Goldman Sachs, though, they have to remind me of this. So sorry, in my -- in the fire drill, I forgot.

Okay. 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, Sheryl and Dave may make forward-looking statements regarding future events and the business strategy or prospects of Facebook. Facebook cautions you to consider the important risk factors that could cause actual results to differ materially from those in the forward-looking statements. These factors are described under the caption "Risk Factors" in their Annual Report on Form 10-K filed with the SEC on January 28th.

In addition, please note that any forward-looking statements that Sheryl or Dave makes 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.

**Gary Cohn** {BIO 4736079 <GO>}

Thank you, Heather.

**Unidentified Speaker**

Thanks.

**Gary Cohn** {BIO 4736079 <GO>}

Thank you, Sheryl and Dave, we're glad to have you here.

**Unidentified Speaker**

Thank you, all for coming back in.

**Dave Wehner** {BIO 2419389 <GO>}

Thanks for having us.

**Gary Cohn** {BIO 4736079 <GO>}

We just think there were too many people in the room. So it's the building's way of emptying out the room a little bit. You guys are such a hot attraction here.

So I won't waste time. We're on a tight clock here. Facebook, 12 years old, amazing what you've accomplished. 12,000 employees, does that mean 13,000 (inaudible) every year? I won't ask that. A 1.5 billion monthly users, average user spends 40 minutes per day on the platform. So take all that accomplishment in 12 short years. Sheryl, when you look out over the next 10 years, where is Facebook going to be?

**Sheryl Sandberg** {BIO 15339456 <GO>}

We did celebrate our 12th birthday. And we did it by trying to talk about our mission. And our mission is to make the world more open and connected. I don't know if people saw this. But we put out some research on the average connectivity amongst the Facebook ecosystem. So there's the old six degrees of separation. That was based on very old research. We did that analysis for Facebook users in 2011. And the average was 3.7. So 3.7 people between any two Facebook users. And now just five years later, it's 3.5. So it speaks to the mission.

That said, we have a long way to go. So when we look forward, we think about our business in three-, five-, 10-year chunks. In a three-year chunk, we want to really continue to grow our current business and optimize our potential there. We have a lot of hard work to do. But we think there's a lot of opportunity with the current business we have, which is connecting consumers and businesses on our platforms and continuing to make our apps more relevant, more targeted, better measurement.

In the five-year timeframe, we think about some of the newer businesses that we're already working on from the consumer point of view. And some of them starting on the monetization point of view. And that's really Messenger, What's Up. And Search. And those are new areas that we are working on. And we think will really contribute to our growth in the five-year timeframe.

In the 10-year timeframe within Silicon Valley is just endless, right? It might as well be decades and decades. We are run by a very ambitious founder. And I think someone who really wants to change the world in good ways. And we think about that in terms of connecting more people, 4 billion people in the world do not have a access to data. And people think it's a technical challenge. And it's not. 95% of them live in areas where the technology is there to connect them. It's a financial challenge. And it's one we're working on. We can talk more about if anyone wants to.

We think about artificial intelligence. The ability of technology to improve lives. And what we're already seeing in terms of everything from cancer detection to automobile [ph] prevention and what that can do on our platform to make sharing easier and make it more seamless for people.

And we think about virtual reality. Virtual reality -- being able to give people a much more immersive special experience that we think can take not just sharing but a lot of forms of communication and media and entertainment and games to the next level.

## **Gary Cohn** {BIO 4736079 <GO>}

So I'm going to follow-up with Sheryl on all those topics in a few minutes because in Davos they had a popup that really exemplified all the areas you just talked about, whether it was artificial intelligence, connectivity. But I'm going to get to Dave. So we're in this new modern world, at least for the last five days in California where we talked about growth and profitability.

So let's talk about Facebook. Revenues of \$18 billion. The highest profitability metrics in the industry.

## **Unidentified Speaker**

(inaudible).

**Gary Cohn** {BIO 4736079 <GO>}

Oh, thank you very much.

**Unidentified Speaker**

That's an optimistic sign for the industry.

**Gary Cohn** {BIO 4736079 <GO>}

Okay, did everyone in California hear that? We're back to normal operations. Bring back those multiples.

So how do you balance your revenue growth and profitability? This is a big topic of conversation.

**Unidentified Speaker**

(inaudible)

**Dave Wehner** {BIO 2419389 <GO>}

We're really glad we're having a great forecast. We've been \$18 billion of revenue, that was up 44% year-over-year. We're really trying to build on that strength to continue to invest to drive growth. And we're focused -- the bulk of our investment is just focused on just continuing to drive the engine of our growth. So that's the growth, the engagement and the monetization of core Facebook and also of Instagram. And we're really focused on making the right investments to make the product more engaging for consumers. And so that's a big part of it. How do we just continue to drive the key metrics?

Also we're focused on improving the added products, making it better for advertisers to get to the people that they want to get to. So we're really focused a lot on how do we continue to drive the overall engine of growth. So that's an important part of our investment program. Sheryl talked about that. And that's enabling us to invest in the longer-term initiatives.

When we think about investing, also we focus on the total cost. We look at stock-based compensation. We're focused on all of the elements that drive the business, all of the investments that we're making. We look at it holistically. And I think that's why we have such a good financial model.

**Gary Cohn** {BIO 4736079 <GO>}

So when you look at today's environment that you're operating in -- the macroeconomic climate, does that affect your outlook in any way?

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**Dave Wehner** {BIO 2419389 <GO>}

I think when you look at -- there's a couple of factors that we're keeping our eye on, right? Obviously, exchange rates. That had a big impact in 2015. It was a \$1.2 billion hit in terms of what we would have gotten if exchange rates remained constant with 2014. And we're continuing to see that macroeconomic uncertainty play out in exchange rates. So in places like Latin America, you've got the real down 30%. We've got over half our business outside the US. So exchange rates still a story, still something that we're watching.

Overall, I'd say we've also got uncertainty out there. You see the stock market doing what it's doing. And it's certainly calling into question what global growth is going to look like. So there's uncertainty out there. We do better in a world where there's pro-growth environments as an advertising business.

So those uncertainties we have to watch. But there's also certainties out there. The certainty out there is that the whole industry is shifting to mobile. We've seen consumer shift to mobile. And 90% of our consumers are coming to us on our mobile platform. 80% of our advertisers are advertising on mobile. So the one thing that we know for certain is there's this big secular shift to mobile.

And so how those different things play out, we'll have to see. But we're really working hard to continue to execute on what we know is a big trend out there.

**Gary Cohn** {BIO 4736079 <GO>}

Okay. So I'm going to ask a Sheryl a question that I won't let anyone ask me. I'm going to ask you about elections. But I'm going to ask it in the Facebook way, of course.

So we're in the middle of this four-year annual election cycle. How significant of a role or how significant a role is social media, Facebook, Instagram, in particular, playing in this election cycle versus four years ago, eight years ago. And 12 years ago?

**Sheryl Sandberg** {BIO 15339456 <GO>}

Well 12 years ago, no one used us. Eight years ago, Obama was described very negatively as the Facebook candidate. And that was why they said he couldn't win. And that was why we at Facebook thought he would. And four years ago we were important but not as important as we are today.

So today, around the world increasingly, people are using Facebook to connect directly with constituents and really thinking about us as the new town hall. Every member of Congress has a Facebook page now. That certainly wasn't true four years ago. And we see all of the candidates using it.

Just from this past weekend, I don't know if people saw this. But Rubio had this video where he, by accident, hit a kid with a football. Then -- you guys are all not using Facebook enough. Then he posted it. Someone posted it in his suit. And then he re-posted it showing he had a sense of humor. Also posted pictures building snowmen with his kids.

Hillary Clinton, this past week, obviously, New Hampshire today has been doing town halls with (inaudible) in New Hampshire. But people who aren't in New Hampshire can participate. And it used to be that in order to meet a candidate, it was good to be from Iowa or New Hampshire. And now people can increasingly, even if they can't meet them, have a more personal one-to-one dialog.

So we think it's incredibly important. From the ad side, this is a big advertising event. But we have a very diverse space. And no one event drives our ad revenue. There's also Super Bowl and World Cup. But we do have a pretty compelling ad offering in the market. We're the only place where you can target not just by gender, life's interests. But you can target by congressional district. And so we see people increasingly using our ad platform to do a kind of targeting that only we can do.

**Gary Cohn** {BIO 4736079 <GO>}

Great. So let's follow up on the ad growth. In a very short period of time, Facebook has been able to garner a meaningful portion of advertiser spends in the wallets. You continue to find new opportunities to grow your wallet share. How do you see the opportunities to take advantage of more wallet share growth in the future?

**Sheryl Sandberg** {BIO 15339456 <GO>}

I think the opportunity is about to shift to mobile Dave was talking about. And that shift to mobile has definitely happened for consumers. But marketers are not moving as quickly as consumers. So by a show of hands, how many people have a mobile phone with you today? Okay, keep your hand up if you also brought your TV.

So when you think about where consumers are spending their time --

**Gary Cohn** {BIO 4736079 <GO>}

By the way, who are those people that didn't raise their hand?

**Sheryl Sandberg** {BIO 15339456 <GO>}

All right, let's try again. Raise your hand if you have a mobile phone with you today. And keep it up if you also brought a TV with you. Okay.

**Gary Cohn** {BIO 4736079 <GO>}

Okay. Anyone who didn't raise your hand, you're lying. But that's okay.

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## **Sheryl Sandberg** {BIO 15339456 <GO>}

But we're seeing that shift, we're seeing that shift happen. And consumers are there. The average American has spent 4.5 hours on TV for a very, very long period of time, that's still true. Two years ago, those lines crossed for the first time. And the average American is spending now 5.75 hours on digital. And that's both desktop and mobile. But the growth is driven by mobile.

And so consumers have made that shift. And while marketers are no longer asking if they should market on mobile, they're asking how. We don't yet see it the same time and attention as consumers are getting. So obviously, the Super Bowl this weekend, we had the Super Bowl on mobile in the US every single day. And in most countries in the world, whatever the big advertising event is, we can deliver that every day or something close to that.

So it's this very, very broad ability to reach people, the kind of thing you used to have to wait for big events we can do daily. But we also could do things in a much more targeted way. And that enables people, I think, to get a better return on their ad spend.

So this year, one example, Gatorade, has long marketed to athletes. When you think Facebook and Instagram, they figured out that marketing and showing ads to parents of athletes would give them really high returns. And since they hadn't been able to find that demographic before higher returns. And they accrued [ph] a 9 times return on ad spend on our platform. That's because we have this brass of the Super Bowl, the election. But also the targeting to go specifically to a very small, really important group and make their spend efficient.

So I think we have a lot of hard work to do. We have to convince the market to move. And that will take time. And that will take effort. And we'll have to execute well and build a great product. But the opportunity to help businesses follow mobile is still there. And means that that opportunity is ahead of us.

## **Gary Cohn** {BIO 4736079 <GO>}

So Dave, I said I would follow up on this a little bit a few minutes ago. So you've been constantly embarking on a strong investment cycle. One thing about the firm is you've always been forward leaning, forward-looking, trying to invest for the future while growing your business. What types investments are most focused on. You touched on a few before. But let's expand on that.

## **Dave Wehner** {BIO 2419389 <GO>}

Yes. So there's always been investment cycle in this business. So there's a certain amount of cyclical to the investments. But there's a big secular trend. And I'm going to do my Marco Rubio. I keep repeating the same thing. But there's a secular trend towards mobile. And we're really investing against that.

And also on top of that, you've got more and more people shifting their video time to mobile. And that also requires investment. So we're supporting the growth of the business. And we're trying to make sure we're out there with the right infrastructure investments, with the right product investments, to be ahead of where the consumer is going.

So in 2016, we're continuing to grow our headcount aggressively, that's focused on our tech force. So it's really focused on our tech workforce. We're continuing to invest on the operating expense side. So our total expenses -- I've guided to 45% to 55% growth. And then on the CapEx side, it's a big investment year for us.

So \$4 billion to \$4.5 billion, that's up 60% to 80%. We've got a couple of big projects going on with our new data centers in Ireland and in Texas. Then we're continuing to expand our existing data centers. But it's really all about getting the right infrastructure in place to support those big macro trends that are going on. And also to make sure that we've got the right product teams in place. And they've got the right capabilities to deploy against that opportunity.

So we're really excited about that. We're making big investments. But we're also focused on doing it efficiently. When you think about hard data centers, they are among the most efficient in the industry. The cost of running the Facebook service for the average Facebook customer is less than a latte for a year. So it's very efficient.

Our energy usage in our data centers is about 38% below what a typical data center runs at. We use 60% less water. So we're really focused on efficiency. So I'd just say the two big points are we're really investing to get these big macro trends, mobile, video and others. And then we're also trying to really do all of that smartly and efficiently.

**Gary Cohn** {BIO 4736079 <GO>}

So in your investment cycle are they new offerings or innovations that consumers can expect this year?

**Dave Wehner** {BIO 2419389 <GO>}

We're constantly innovating with core products. So I'd say the biggest things that are going to drive the investment side of the business for this year are going to be innovating in the core product. It's going to be making sure we've got more video capabilities out there. It's going to be making sure that we've got all of the different ad products up to their full capabilities. And they work the best way they can for their advertisers. And it's doing that on Instagram as well.

So all of those things are taking resources both in terms of headcount and deploying the right technical talent against it and also getting the infrastructure investment lined up behind it.



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**Gary Cohn** {BIO 4736079 <GO>}

So I recently had the opportunity to test out your new Oculus. You sort of put on a scuba mask with a video screen in front of it. You sit in a chair. And you wander around, look up, look down. And it is unbelievable because as you move you get to see exactly where you are. You look down the event [ph] , up to the ceiling, spectacular.

**Sheryl Sandberg** {BIO 15339456 <GO>}

Did you get to try the ones with the hands?

**Gary Cohn** {BIO 4736079 <GO>}

No. I guess I'm not qualified.

**Sheryl Sandberg** {BIO 15339456 <GO>}

Getting better.

**Gary Cohn** {BIO 4736079 <GO>}

I'm not qualified for that.

(multiple speakers)

I thought you guys were like pumping me, putting me in the chair and having me turn around and do this. But I haven't seen the video yet on Facebook. So maybe I'm safer now. So what do you think you can accomplish with virtual reality?

**Dave Wehner** {BIO 2419389 <GO>}

Well the thing that we're most excited about is we see this as a continuum of consumer behavior going from sharing texts, which is kind of how Facebook got started, just posting on people's walls -- to sharing photos. That was a huge boost of growth for Facebook when people started sharing photos on Facebook and, obviously, that's really rooted in the history of Instagram as well -- to this shift to video that we're seeing now and that we're investing a lot against today.

Then we were looking at where is that heading? And we believe that it's going to be even more immersive. And that's why we're excited about 360 video, which you can use on Facebook. And that's why we're also excited about VR, which is extremely immersive.

So how many people here have had a chance to try out the VR experiences?

It's pretty -- when you try it, it's pretty transformative. I mean, it really changes your view on what could be possible in terms of experience in a platform. And that's what we're really investing against. And we're excited about the work we're doing with Samsung with Gear VR. That's the (inaudible) cost experience delivered on mobile. And then we've got the Rift coming out this March. And there's going to be some really tremendous experiences on that.

That all being said, this is something that's very early days that we're investing against. And it's going to take time to just develop the ecosystem around it. But we're really excited about it. In the meantime, we're focused on investing in the mobile and the video side of the equation, which I think has just gotten a tremendous amount of near-term opportunity for it.

**Gary Cohn** {BIO 4736079 <GO>}

So Sheryl, you and I share a couple of major passions -- small businesses, women, women's opportunities. You mentioned on the earnings call that there are 50 million small businesses, women's opportunities --

**Dave Wehner** {BIO 2419389 <GO>}

It just came out, yes, yes.

**Gary Cohn** {BIO 4736079 <GO>}

Opportunities in the world, fair treatment, fair education, fair promotion.

**Sheryl Sandberg** {BIO 15339456 <GO>}

You're fine, it's them.

**Gary Cohn** {BIO 4736079 <GO>}

I know it's them. These guys -- California.

**Sheryl Sandberg** {BIO 15339456 <GO>}

You're from New York.

**Gary Cohn** {BIO 4736079 <GO>}

Yes.

**Sheryl Sandberg** {BIO 15339456 <GO>}

That's not the California we're talking about, that's New York.

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**Gary Cohn** {BIO 4736079 <GO>}

All right, we're going to have a hand raise. So you mentioned on the earning call that there's 50 million small businesses on Facebook and that only 2.5 million of them advertise. It sounds like an enormous opportunity with the pinpoint on advertisement for small businesses to get real traction in their localized communities, which is something that we all -- we both share passion growing small businesses.

**Sheryl Sandberg** {BIO 15339456 <GO>}

I think it's one of the biggest opportunities in front of us. And again, we know how hard the work is and how much we have to execute. But the opportunity is real. So 50 million small businesses will use Facebook this month to communicate mostly with the free product.

35% of small businesses in the United States, the most developed market, don't have any online presence at all. And it's even harder to create a mobile presence than an online presence. No one really uses the mobile Web. Mobile apps are expensive and getting down is prohibitively expensive.

So if you're a small business, how do you get online? The answer is really Facebook because you know how to use it, because you've done it as a person. And setting up a page is really the same thing as setting up a profile. And that's why we see small businesses being so active.

In terms of converting small businesses and getting them up the ramp to be advertisers, what we've learned over the last couple of years is we need to go to the market with a very simplified product that's clear value proposition.

A couple of years ago we used to ask small businesses using your platform -- do you want to become a Facebook advertiser? And that sounds like a lot of work and a lot of expense. Now we say do you want to pay \$5 to boost that post? More people say yes. And that's how we've gotten to 2.5 million advertisers. 80% of the advertisers will onboard to something simple. And so it's our opportunity to continue to do that.

What I'm excited about. And I know we do share this passion, is that this democratizes access to people and to information and to marketing. 1.5 million small businesses will upload a video to Facebook this month. There is no way 1.5 million -- and that's free end paid -- there's no way 1.5 million small businesses will shoot and distribute a TV ad or a video ad.

And so the tools that we can all use to connect to consumers can be used by small businesses. And we could get the major area of growth for us.

**Gary Cohn** {BIO 4736079 <GO>}

Great. So I'm going to ask one or maybe two more questions, then we're going to go to the audience for questions. So just to give you warning that we're coming.

Let's talk about culture for a few minutes -- another area that we share interest. You grew your company by about 25% last year. Your 12,000 employees now you grew by about 3,500 last year. You really have won the more unique cultures of a company. How do you maintain the strong culture, maintain the innovation, when you're growing your company at that rate?

**Sheryl Sandberg** {BIO 15339456 <GO>}

I think culture is two things. It's mission and it's how you work together. The first and most important thing is that we are incredibly connected to our own mission. Mark and I are now -- and we didn't start out this way -- but the Company and the product has really changed us. We share things publicly I don't think either one of us thought we could share. We talk in the Company about what your Facebook story is. What are the things that you saw on Facebook today that mattered to you? Why do you come to work every day?

And it is inevitably people going through difficult things or happy things in their lives as both Mark and I have in sharing them. It is inevitably someone getting rescued, someone's finding a child, someone doing something that matters or even having a new experience, having a birthday, because all their friends remember on Facebook. So we are focused on the mission. We talk about it, we embrace it all the time.

The second thing is we try to be very careful about how we work together. So we build great products. We're looking for people who build things. When we're looking through a group, we care much more about what someone in college has built and shipped than we care about their GPA.

There is a poster I have in my conference room, which has two hands that are dirty. And it says, "The future belongs to those of us still willing to get our hands dirty." We pride ourselves on -- I do deals and sales calls, even though I run the sales and deals team. Mark has to sell products and does in-depth product reviews. We put people into small teams and expect them to execute.

We also have pretty much the opposite of a hierarchical culture that we know how to build. Mark and I sit. And Dave is out with everyone else. We don't have offices. We have no executive dining room, we have no places where we wall off people. People tell me and Mark we are along every Friday at an open Q&A and all during the week on Facebook.

We are also big users of our products. And we have now a product for other companies to use in Facebook at Work that other companies are starting to use. We do our jobs on Facebook. We have Facebook groups for different products. We communicate. And that means we talk about small bites of real time feedback. We try not to let things build up. But we communicate on every product launched, on

every blog, on every issue that comes up in real time so that we can continue to move quickly.

**Gary Cohn** {BIO 4736079 <GO>}

So I'll end with a combination question for the two of you. On mobile, because we talked about mobile. It's been a big topic that I think you guys have done unbelievably well and mastered. A few years ago people said that the large, big brands, the large, big advertisers wouldn't transition to mobile. That seems to be changing. It seems to be changing rather quickly.

Why do you think it's changing? Then, Dave, follow up, like, that change is gone, it seems like you guys have done a really good job of taking market share and mindshare in the mobile space. Is it hard to continue to grow that? Is that opportunity going to continue to be easy to grow or is that an area where you're going to have to continuously fight for market share?

**Sheryl Sandberg** {BIO 15339456 <GO>}

I think brands are increasingly embracing Facebook. And I think it's driven by two things. One is a consumer shift of time and attention, which is just so palpable and so real. And the second is that what you are able to do on mobile has changed and really come to where they are.

When you think about advertising offline, if you think about advertising on TV or print, it was a very rich, creative environment for advertisers -- the 30-second commercial, the beautiful glossy shot. When advertising first went online. And I was at Google at the time, it was text and keywords. And it wasn't the creative canvas. It was technology. But not as much of a creative canvas.

Now mobile is able to deliver that creative canvas that marketers love. We can do video, we can do text, we can do pictures. It is every bit or even more immersive. And it's powered by technology. So what that means is that brand marketers are more willing to move both because that's where their consumers are and because of the format.

I'll share a recent example from the holidays -- Heineken was going to market Strongbow Apple Cider, a very well-known brand globally but not well-known at all in the United States. So this is a classic brand problem -- how do you get broad awareness? And the classic example to that has always been offline.

What they did is a really comprehensive ad campaign on Facebook and Instagram, where they marketed with their beautiful messages. But they marketed to people who are interested in wine and spirits. And we were able to show them that that delivered 13% revenue increase to the people that saw the ad.

So we're able to take people all the way from brand awareness through the creative canvas of beautiful video, beautiful pictures. And all the way through a sales cycle. And that's a pretty big opportunity that I think brand marketers really can't ignore.

**Dave Wehner** {BIO 2419389 <GO>}

I think the real answer is it's a lot of hard work to continue to execute. It's been a lot of hard work to get where we are. To what Sheryl was talking about on the demand side of just building all the products, building all of the relationships to bring the advertiser demand in mobile to Facebook. That's been a lot of hard work. And we've executed well against that. We think there's still a lot of great opportunities there.

On the supply side, because we look at this as a sort of a supply/demand auction system at its core, we've got to continue to grow the number of people using Facebook. We've got to have them spending more time with us. And we've got to get the right ad experience in front of those people so that they accept the ads that they're seeing. And we're investing on all of those fronts -- getting better quality ads, getting more time spent building the right products. You can't sit still in this industry and expect that stuff to grow. You've got to continue to invest in the product. Just very simple. And I think it's not easy. We like our chances. But it's not easy.

## Questions And Answers

**Q - Gary Cohn** {BIO 4736079 <GO>}

We like your chances, too. All right, we're going to open it up for a few questions -- oh, a very quick hand. I don't know how we'll get -- you can just yell. Yell out. And I'll repeat.

**Q - Unidentified Participant**

(inaudible)

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

The question was what needs to happen in terms of ads and brand measurement and is there an inflection point coming where we'll really see brands' dollar shift due to measurement? Is that a fair synopsis? Okay.

So measurement is huge for us, because we have to earn our business client by client. And when you think about the shift of brands, marketers moving to mobile, it's not just a creative shift, it's a measurement shift, because they have deep systems -- the ad agencies and our big brand clients that tells them exactly what they're getting when they spend on TV.

And the good news for us is we are able to do really good measurement. Not on every campaign with every ad. But increasing with a client. In most industries we'll go all the way through from seeing the ad to purchase. In an anonymous privacy-

protected way, we can AB test and do a holdout group and look at what's happening at the end of the day.

And one of the challenges we face is getting the whole business ecosystem and the advertising ecosystem to that sales metric. The ad's ecosystem works on what we consider proxy metrics. Ad recall, brand lists, favorability -- all of these are really important. But they're really proxies for what people actually care about, which is sales. Selling phones, driving cars off lots, moving products off shelves. What we are doing. And I think it is an inflection point, is increasingly being able to go all the way down the funnel.

So in the Heineken example I just shared with the apple cider, we knew that people with our ads had a 13% sales increase.

Now, our ability to do that goes client by client, depends on the data they have, it depends on the privacy protections we can provide. So I think there's a lot of work to do. But we're already seeing -- we're already seeing that happen.

The other thing that has to happen is people and branders, particularly, need to adapt to the different environment. So we were actually looking at this earlier today, the first TV ads were people standing at mikes reading their radio ads. That's what they did. They had radio ads, they came out to be the (inaudible) they read. It took a long time for the TV people to start making TV ads.

Similarly, what is a video ad in a lot of people's minds is 30 seconds with sound, which is for a TV environment. We have lots of times where we'll get 30 seconds with sound. But we also get this huge number of much faster impressions -- 3, 7, 10, 15 seconds, some without sound. Our most forward-leaning branders are really leaning into that and figuring out how to use it.

So Absolut Vodka -- they did an ad campaign, which was designed to capture your attention with these lit-up bottles quickly, whether or not you have the sound on, they targeted people who are trendy and out late at night. I never saw the ads. But Dave apparently saw a lot of them.

**Q - Gary Cohn** {BIO 4736079 <GO>}

I don't know if that's a good sign, the CFO is drinking. But okay.

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

And in that case, we were able -- we measured as we background noise [ph] and we were able to measure. And it was 33 points higher. So what you'll see is what we need from brand marketers is to shift the formats to fit the format and also shift the measurement.

The onus is on us. I say this all the time to clients. We want to be the best dollar on the minute you spend. And we want to prove it to you. And we want you to be

skeptical. And we believe that if we can prove to them that we're driving their business metrics, their sales at the end of the day will continue to earn a greater and greater share.

**Q - Gary Cohn** {BIO 4736079 <GO>}

Great, thank you. Does that mean you have a question or are you just holding the mike? Okay. All the way in the back of the room. Is that a question? Okay, go ahead. We'll go all the way to the back. And now I'm coming to you next. No, you can sit down, I'll come to you next.

**Q - Unidentified Participant**

Thank you. Unidentified Participant [ph] (inaudible). Two questions, if I may. One to follow on the advertising piece. Could you talk a little bit about how you see the addressable market? Is it a zero sum game versus traditional media or do you see this expanding the market around the world?

The second question as a follow-on, Facebook, along with Google, have built a dominant global scale in digital advertising. What do you think of the prospects for subscription and transaction revenues of the Facebook platform and the markets that are being addressed by your company?

**A - Dave Wehner** {BIO 2419389 <GO>}

The second one was around -- the question around subscription revenue. Our focus is really to just drive the most connectivity that we can in the world. So the core of our mission is really not about our subscription business. It's really around providing access and connectivity to the most people that we can.

So how do we get the most people on Facebook, Instagram. And our properties that we can? So the focus really isn't on them driving subscriptions on top of that. So at the end of the day, we think that the advertising business works really well with the core mission because we're connecting people and then we can connect those people to businesses.

So I think for that reason, our focus is really on continuing to work with the advertising model.

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

Can you remind us of the first question? I'm sorry.

**Q - Unidentified Participant**

Thank you. The first question was just extending the opportunity set around traditional advertising and advertising versus traditional advertising.

(multiple speakers)



**A - Dave Wehner** {BIO 2419389 <GO>}

Oh, the zero sum game.

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

Yes. I mean, look, when there's economic growth, it's not a zero sum game because the markets grow and the sales grow and marketing is usually a percentage of sales.

I definitely think we have a question around economic growth. For now, I think what people are finding is there is a shift to mobile. And it's happening in a pretty broad way from time and attention.

The good news for mobile again is as time and attention grows, we think marketers want to be and need to be where consumers are.

**Q - Gary Cohn** {BIO 4736079 <GO>}

We'll take --

**Q - Unidentified Participant**

While given Facebook has wallet and payments and so on, what do you think of the prospects for that?

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

I think, for us, we're very focused in the advertising business. What we command is a tremendous amount of consumer time and attention. And that maps really well to an advertising business model, which is also a very high margin profitable with business, which enables us to continue to invest in all the areas we're interested in.

**A - Dave Wehner** {BIO 2419389 <GO>}

And when we think about payments, we really think about that as being an enabling technology. So it allows for conversions to happen more easily for our advertising clients. So it really -- it's making our inventory more valuable if we can connect them to a transaction more quickly. So we really think of payments not as core but really as an area where we can boost up ourselves and partner with others to allow better conversion for our advertisers.

**Q - Gary Cohn** {BIO 4736079 <GO>}

Right. I'm going to take your question, I'm going to take your question up here in front. And those will be the last two questions. Let's go with you.

**Q - Unidentified Participant**

Thank you. You talked about the virtual reality and your focus. And everyone should fit [ph] to mobile. We're watching a lot people also move to the reality, the live TV

streaming. And with Periscope and Meerkat and Twitter acquiring Periscope, et cetera, what's your take on live video?

**A - Sheryl Sandberg** {BIO 15339456 <GO>}

Well we have a live product out that's actually doing really well. And it's really fun. I've done a couple of them. People are moving to more faster, more immersive. I think the trend is toward more immersive, what will be virtual reality, what will be live? And I think there's a lot that's going to happen because it gives people a different and quicker way to share.

**Q - Gary Cohn** {BIO 4736079 <GO>}

Last question.

**Q - Unidentified Participant**

Yes. So you guys talk about connecting the world and you see Google with Project Leon. And kind of those far-out ideas of Internet balloons. And Facebook has connectivity labs. Can you provide any insight into maybe some of the short-term or what does the progress look like into building out some of those technologies to delivering the Internet around the world?

**A - Dave Wehner** {BIO 2419389 <GO>}

Sure. It's really about -- I'll take that. It's really about proving out these technologies that we think can be transformative and change the cost structure for the industry to deliver Internet to places that couldn't get that Internet before -- connectivity before. So some of the investments we're making there are things like drones. So we've got our Aquila Drone program. We're excited about that. That can really, we think, change the ability to deliver connectivity to the remote areas.

We think that's a great opportunity. We're going to likely work with partners on that. How do we use that and leverage our partnerships with operators to help drive connectivity globally? So we're investing in that. We're working, along with Internet.org, our initiatives to provide free basic services so it's not just around technology, it's also around how do we work with our partners to take the service that we have today and also use that to jumpstart connectivity for people who aren't connected today.

So I think it's all part of the theme, which is how do we use our strength in the market in terms of our technology? Then, also, the products that we have to get more people on the Internet because we think that's good for the world, it's good for Facebook.

**Q - Gary Cohn** {BIO 4736079 <GO>}

I fooled you. We're going to go one more question. And Sheryl and I are going to put our money where our mouth is. We're going to invite a woman to ask a question, since all the men jumped up to get in front of all the women, we're going to make sure that there's almost equal opportunity here.

## **Q - Unidentified Participant**

(inaudible)

## **A - Sheryl Sandberg {BIO 15339456 <GO>}**

So the question is the balance between sharing personal information and privacy.

Privacy is core to what Facebook does in their ability to share because people's willingness to share depends upon the privacy we provide. So anyone who is an active Facebook user tends to use Facebook in a very broad way. I have things that I'll share publicly. And I have things that I'll share with my six girlfriends that I'm still super-close to -- we have a private group -- that I only share with them and everything in between. Some stuff with my family, some stuff with my Facebook colleagues.

And that ability to share what you want to share with who you want to share it, actually explains a lot of Facebook (inaudible). And we see people doing everything along the way. Privacy is an interesting and important topic because we have to offer that to people. And people have to really believe that we care about it and have to understand how the products work. And I think if you look at Facebook's evolution on privacy over the last 10 years, it's pretty profound.

Our privacy controls used to be on a page you would click to. And it was pretty complicated. Now if you do a post, there's a little icon. And it prompts you right there, do you want to share publicly with friends? And we even now have a "me only" setting so you can create a record just for yourself.

So I think it's a really important part of why people are willing to share on Facebook.

## **Q - Gary Cohn {BIO 4736079 <GO>}**

Thank you, all for your attendance. Thanks for your great questions.

## **A - Dave Wehner {BIO 2419389 <GO>}**

Thank you, everybody. Thank you, Gary.

## **Q - Gary Cohn {BIO 4736079 <GO>}**

Thank you very much for being here.

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