

# Morgan Stanley Technology, Media & Telecom Conference

## Company Participants

- David M. Wehner, CFO
- Sheryl Kara Sandberg, COO & Director

## Other Participants

- Brian Thomas Nowak, Research Analyst, Morgan Stanley, Research Division

## Presentation

### **Brian Thomas Nowak** {BIO 16819013 <GO>}

All right. Good afternoon, everyone. Welcome to our afternoon conversation with Facebook. We have Sheryl Sandberg and Dave Wehner here. We're thrilled to have you here. Thank you. So very much for making the conference.

Before we get started, I have to read all the important disclosures. 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. Some of the statements that Ms. Sandberg and Mr. Wehner will make today may be considered forward-looking. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Any forward-looking statements made are based on assumptions as of today. And Facebook undertakes no obligation to update them. Please refer to Facebook's Form 10-K for a discussion of the risk factors that may affect actual results.

Sheryl Sandberg has been the COO of Facebook since 2008. And Dave Wehner joined Facebook November of 2012 and has served as Facebook's CFO since June of 2014. It's your fourth appearance at our TMT conference. Again, thank you so much, both of you, for being here.

### **David M. Wehner** {BIO 2419389 <GO>}

Thank you.

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

We're so glad to be here. And we got that very prestigious lunch spot where everyone is really tired and kind of eating and low blood sugar. So we'll try to

entertain you at least a little.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Try -- yes. Try to keep the energy high. A lot to talk about in general in -- around Facebook, around social, around the entire ecosystem. I -- Sheryl, I wanted to start with a couple high-level questions. Facebook had another great year in 2017, very good revenue growth. The community metrics were overall pretty solid. But there were some challenges. And I know you've been investing to kind of address some of these challenges around safety and security and engagement on the platform. Maybe just talk about some of the investments and the changes you're making on the platform.

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

We had a year where there's a lot that we're proud of. We're proud of the engagement we continue to provide people, the social connections they make. We're proud that we're connecting so many people around the world that haven't been connected and all the businesses that are finding people to hire and really growing through Facebook. That said, to say 2017 was a challenging year is -- feels like a bit of an understatement from where I think we sit. And I think this year is already and will continue to be a challenging year. And there are so many drivers of this. But the world is very polarized. And there is a lot of kind of deep-seated worry about the state of the world, where the world is. And that plays out on our platform. And we feel it very deeply.

We are taking a number of steps to show that we take full responsibility for everything that happens on our platform because we have a responsibility, an opportunity, to maximize the good that's done. But we also have a very deep responsibility to make sure that we minimize, as much as possible. And it will never be 100% possible with that. So a couple of things we're very focused on. False news. People want real news on Facebook. We want them to get real news on Facebook. And so we're working really hard in this area. People think of false news as politically motivated. And it is. But it's actually more often economically motivated. People are writing outlandish headlines so they can get clicks. So they can make ad money. And so probably the most important thing we can do is go after the economic incentives and make sure that people who are purveying fake/false news are not making money from it. And we've done that in a very big way. We also are working with third-party fact checkers. We don't think we can or should be the arbiters of the truth. But we know people want the truth. And it's really third parties we rely on to do that.

Election interference. We are working hard and making sure all of the information on Facebook is from authentic accounts because fake accounts are actually the source of a lot of the false news. And they were the source of all of the election interference we saw. We are working very closely with election commissions all over the world. We have 14,000 people right now inside the company who are working on community operations, safety, security, site integrity. We're growing very quickly. And we'll be at 20,000 by the end of the year, working hard on this across the board.

And the third area that's really important is the content itself. There's no place on Facebook for hate, violence, bullying, terrorism. We've always had those policies in place. And it's up to us to continue to enforce them and enforce them well. We've made some great progress in areas. 99% of the ISIS terror -- ISIS content we find and take down, we're finding ourselves now. We're not -- it's not getting reported to us. But there will always be more to do in these areas. We announced at our earnings call 1 quarter ago that we were taking all of this so seriously that it would impact profitability. And that is exactly what we're doing. I think that's important and Mark thinks that's important and David thinks that's important, not just for the long-run health of the company and the community but for the short and medium run. So we're going to continue to make big investments in all of these areas.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Thanks a lot. It's just that there's a lot of engagement. It's a big community. The other piece of the business is the advertising side. I know it's always important to separate the community from the ad business. You've been pretty active in continuing to improve the ad product over the course of the last couple of years. So are there 1 or 2 key improvements on the advertising side that you've made that most excite you as you think about 2018 and '19?

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

Our advertising business is strong, growing. I think we have done some good things. But we have a lot of hard work and, I think, room ahead of us. When I think about the advertising opportunity we offer, we are the place where if you want to reach everyone in almost every country in the world, you can. We have a Super Bowl in the U.S. on mobile every single day and the equivalent of that in most countries. But the other thing we can do is make ads more specific, more targeted, more relevant and measure better because we have pretty unique targeting abilities. And that's good for both the advertisers and for the community. They really work together. If the ads you see on Facebook are better targeted, more relevant, that's a better consumer experience. It also yields a higher return for advertisers because they're reaching the right audience and using their money effectively.

When you asked the question, you said, are there 1 or 2 big things we're doing? The thing about our ads business. And I think all online ads business, is this is a game of basis points increase. This is -- yes, we've launched new products. But for the most part, we launch products and then we tweak and we tweak and we tweak. And we keep making it a little bit better and a little bit better. And I think a lot of the performance you see now is really the compounded earnings of all of those basis points improvements that make the ads a little bit better. So I'll share 2 specific products we've worked on. Dynamic Ads. Dynamic Ads are ads in our site which are taking into account information from the person of things they have looked for. We launched them for autos, we launched them for travel. We continue to launch new verticals. And we continue to make them a little bit better. Anyone who listens to our earnings calls knows that I do love a good case study. So fear not, I have some with me.

Airbnb did Dynamic Ads for travel. And what they did is they looked at -- they served ads that were specifically to people who had looked for but not booked specific locations. So when you got the Airbnb ad, what you got was the ad for the location you were interested in. That's the kind of experience we can offer that makes the ad so relevant. And we did a conversion list study. So we measured all the way through from buying the ad to actual booking the vacation. And they had a 5.7x return on ad spend. So anyone who's ever looked at ads knows how high that is. Another example, TwirlyGirl, a small example, they're a retail store, they sell -- retail e-commerce site, selling clothing for young girls. They did a 12-second video of a girl twirling in a dress. And it linked directly to a product.

This is through our Collection ads, another ads product we launched where we can go directly to products. And because they were linking directly to the products, they had an 8.7x return on ad sales. And importantly, 80% of their business last year came from Facebook. I think the old adage of I'm wasting half my ad budget, I just don't what half, just doesn't have to be true anymore. And we're going to keep making improvement after improvement, really day after day, week after week, to get those slight improvements that make that more true.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

I think that's a great way to think about the basis point tweaks and basis point increases. So let me turn to Dave then a little more on the mechanics of the ad business of what we've seen. If we look over the course of the last year, it looks like the ad revenue growth is increasingly being driven by pricing, where the average price of the ad units is increasing. Can you just help us understand a little bit more how you think about, A, the ability to continue to grow impressions faster? Then what about driving price higher? Do you still see a lot of runway for price to drive the ad business?

**David M. Wehner** {BIO 2419389 <GO>}

Yes. Thanks, Brian. It's a great question. I think we do see that there's -- we have continued opportunities to grow impressions on both Facebook and Instagram. So we are optimistic about our ability to grow impressions. And we talked about that on the call. We have seen that the character of revenue growth has shifted more to price. So this past quarter, it was a 43% increase in price year-over-year and a 4% increase in impressions year-over-year. And that's an inverse of what we've seen in past years. So it's increasingly driven by price. But I think a lot of the areas that Sheryl just spoke about, which is these basis point improvements in our ads products, it's about taking the inventory that we have, the impressions that we're bringing to our customers, making them more relevant for our customers and also, at the same time, allowing advertisers to deliver real business results from those impressions more efficiently. So that's playing through to better ROI for our advertisers. And if we're doing that, prices go up for the effective CPM for us that we're getting. And I think that's what's playing through and not the price increases that we see on the platform.

But we think that's really being driven by us getting better at finding the right place for our advertisers to bring their messages. So I think we monitor that as best we can. Are we seeing an ability to drive better ROI for our advertisers? Because we don't want to see price increases driven by an erosion in ROI for advertisers. And we don't think we're seeing that. We don't have perfect information. But we don't think we're seeing that. So I think we're optimistic about all the different product improvements that we can make on the advertising side. A lot of the things around targeting, around getting the right unit, as Sheryl spoke about, will translate into our ability to continue to drive improved pricing on the platform.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Shifting back to engagement a little bit. Engagement continues to be a --

**David M. Wehner** {BIO 2419389 <GO>}

It's a pretty hot-button topic,

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Widely discussed topic in the investor community over the last 4 to five months. Mark talked about some changes to the News Feed to prioritize more meaningful interactions. So a few questions behind that. So the first one is, can you just help us understand what does that mean? How are you measuring the success of those efforts? Then as you think about the impact on the advertising business or the advertising ROI you deliver to your advertisers, what's the impact of the News Feed changes on the ad business?

**David M. Wehner** {BIO 2419389 <GO>}

Sure. So really, at the end of the day, it's pretty straightforward what we're trying to do with the changes that Mark talked about on the call and that we've been talking about since then, which is we're trying to make sure that Facebook has that -- is that community where you can come and you can connect meaningfully with your friends and family. And we measure that and we think about that in terms of are we driving engagements where you're commenting on somebody's post, where you're liking someone's post? Things that we can measure and to optimize against. And we can then see, okay, that is where we want to focus the attention of Facebook, is really driving those meaningful connections. And as we do that, it's just about how do we rank things in News Feed with the signals that we have. Things that are more passive consumption. So things like passive consumption of video, that does take a bit of a hit and that translated to the decreases in the time spent that we saw in Q4. So that's sort of part and parcel with that.

But when it comes to how that impacts the business, the impact of the business is much more muted because we're still seeing that there's lots of post-engagement. So when you're taking away time from things like passive video, it doesn't mean you're not seeing as many posts in News Feed. So there's -- I don't think the impact on the business is really that profound relative to the impact on time. So we're still

driving a lot of engagement on News Feed and the number of posts that you see. That's important in terms of the drivers. Then broader -- a broader brush, as we drive a better quality of experience on Facebook and as we drive more meaningful content interactions, we think that, that just improves the environment on Facebook. And I think the advertisers benefit from that over time. And I think that will be reflected as well.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Got it. Since the Fourth Quarter earnings, we've had a lot of investor questions about some of these quality changes that you mentioned in the past, these video changes, et cetera. And really zeroed in on the North America daily active user numbers, I think, fell by a small amount, like 700,000 people. Are those the changes that caused the 700,000 people to drop off in the quarter? And as you step back, what gives you confidence that there isn't a deeper issue with Facebook where you have a user churn or a user engagement problem? And what gives you confidence that engagement in users will continue to grow and be steady from here?

**David M. Wehner** {BIO 2419389 <GO>}

Yes. When it comes to the decline that we saw sequentially from Q3 to Q4 in the U.S. and Canada market. And we break out U.S. and Canada as our North America segment, that is a trend that we don't see continuing on an ongoing basis. So at the level of penetration that we have in the market, we have such a high level of penetration in U.S. and Canada, there's going to be some volatility around this just given where we are. To your specific question, were the changes that we made that were really focused on driving meaningful interactions, the changes that drove the DAU sequential decline, the answer is no. It was really other quality changes that we're making around things like notifications that led to that particular issue. So again, we think there's -- continues to be great opportunities to improve the product and make it better. And we think that, that will be reflected in us continuing to get a big audience.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Helpful. The -- so we have the mothership, Facebook. And then you have multiple other platforms. And Sheryl, I wanted to ask you about some of those other platforms. Starting with Messenger and WhatsApp, they have a lot of users. I think there's still a lot of questions around how is consumer behavior different on Messenger and WhatsApp versus the other platforms? And how do you think about driving monetization over time? So maybe talk about those 2 big platforms.

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

What Messenger and WhatsApp are is direct one-to-one communication. And that's absolutely exploding on mobile phones and, I think, particularly on these 2 platforms. Messenger now has 1.3 billion active users, WhatsApp has 1.5 billion. And people are doing something very different, I think, than they're doing on our other platforms, where it can be more broad sharing to a group of people, either a small

group or one-to-one interactions that people are having. We're very focused on growth and we're very focused on the engagement and the consumer experience in both. But we also see big business opportunities, even though they're at different stages. With Messenger, we already have 18 million businesses that are using Messenger to interact. And again, we're being slow and deliberate -- no one get too excited too quickly -- about the monetization opportunities because we're going to be slow and deliberate. But I do think they're very big over the long run because if you already have 18 million small businesses working on it. And we see the possibilities and we see the early activity. I think around finding customers, we can already see the marketing possibilities. And we already see a lot of good work on customer care that can happen.

And I'll share a recent example. Kia launched a Messenger bot. And they ran click-to-Messenger ads which puts people who are interested in this car to directly communicate on Messenger with a bot. And that really matters because it wasn't that expensive for them to stop that, right? They weren't stopping the messages. And people started Messengering the bot. And they were asking for price quotes or asking for vehicle specs. And the bot was able to answer those questions really well. They saw 2x their conversion through that engagement than they did on their own website. And that's an early example. But I think it shows what's possible. And again, what we want to do is we want to drive up the ROI for advertisers so they can do things in a more targeted, more specific, more automated way and measure all the way through to their results. WhatsApp is earlier. But we did just launch our WhatsApp for business app. And we are seeing good engagement and good excitement from the community. Businesses are already using WhatsApp, particularly in the countries where WhatsApp is really strong. You definitely see a lot of businesses using them as well as around the world. And so, again, early days, we're not telling anything. But long run, I think the potential is really big.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Yes. It was nice to see Messenger was called out in the K. It was the first time as a driver of ad revenue. So it's early. But it's starting to at least be in print.

**David M. Wehner** {BIO 2419389 <GO>}

It's early.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

It's very early. One of the platforms that's a little further along is Instagram. I know you talked about 2 million advertisers on Instagram at this point. And the question I have on Instagram is, Mark has talked about the growing use and the growing importance of Stories. So maybe it's a question for both of you to talk about the monetization cadence of Stories, maybe unique challenges you face, how you monetize Stories. Then, Dave, how do you think about integrating Instagram Stories into the revenue pile over the next couple of years?

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

Instagram is a big opportunity for us. With Facebook and Instagram, we have the 2 largest mobile ad platforms in the world by far. Instagram has great visualization. When people share on Instagram, they're sharing in a very rich way. And what's really been a very, very fast growing type of product, which is Stories, really takes advantage of that. For people hopefully who use them, Stories are very immersive. Stories let help you tell your story in a narrative way with videos and pictures. And so it's a really big opportunity for people to communicate. And anytime on our platform people can be communicating, there's an opportunity for businesses to interact in the right way. Early days on Stories revenue is well. But working well. And I'll share an example.

Buck Mason is a small men's clothing store based in Venice, California. It's a cool story because they started selling clothing out of their garage. And now they have 3 locations and an e-commerce site. They ran Instagram Stories ads that encouraged people to swipe up and shop the shirt. So they went from this story-immersive kind of format to a very specific product. And they were able to target men 25 to 54 living in the U.S. and they did Lookalike Audiences. So what we can do, again, because of the targeting investments we make and continue to make, is when you find an audience on Facebook that's working for you or the current customers you have, we can help you find the audiences that look like them.

So we can say, okay, this is what works. We're going to show this to another group of men between these ages that we think would be interested in these products. And the results have been really good. They had over a 3x return on ad spend. And so what you're seeing there, I think, is the same thing that is already happening and will happen more with Stories, is the front-end that consumers see is the product. So it is Instagram photos, Facebook videos, Instagram Stories, Facebook Stories. The back-end is the ads database we have, the people who advertise with us, all of the targeting information, all of the measurement ability we have. Once you can match and find a good audience on Facebook, we can help you find that same audience on Instagram. And I think the power of those 2 things together are really exciting, particularly because Stories is such a vibrant and visual format.

**David M. Wehner** {BIO 2419389 <GO>}

Yes, I mean, Mark talked about how important Stories is for driving sharing. And it really lowers the barrier to sharing. Just right prior to coming in here, I had a wardrobe malfunction and a button -- my top button popped off my shirt.

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

Did you buy something through an ad on Facebook?

**David M. Wehner** {BIO 2419389 <GO>}



No. I did not. But (Anil) did film me sewing the button back on. And that's something that I probably don't want to share for permanent record on my Facebook page.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

You did just get (multiple speakers)

**David M. Wehner** {BIO 2419389 <GO>}

Exactly. So -- but it's a great thing to just share as a story that will appear and go away in 24 hours because that's probably how I want it to be. But the thing that is very real trend is this type of sharing is becoming very prevalent on all of these different platforms, whether it be Instagram or Facebook or WhatsApp with status. And so I think that's something that we're going to be working with over the next several years as we see that transition. And from a monetization perspective, Sheryl talked about this, the format is a format that works really well with advertising, much like Feed. But there's different things about it than Feed. It's a fully immersive experience in the sense that it's usually full-screen. So that's a positive. But there's still a lot of work that we need to do to build the ad products to work the same way they do in Feed as to work in Stories the same way. So ultimately, we think it's a great opportunity. It's still early. But we think it's going to be a very important trend to watch in terms of how it affects the business model as well.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Sheryl, I want to ask you about video. And specifically, Facebook Watch. I'm a big fan of Tom vs. Time as a Michigan man. So our (inaudible) survey data show that it's just some pretty good traction on Watch. It shows that 40% of users in the U.S. are using the product at least once a week. So I have a series of questions. One, any reaction to that number? Then, two, at a higher level, can you just talk through sort of early learnings on Watch and how you determine whether or not to invest in the types of content you're putting on the platform? What analytics are you looking at for you to determine where to spend money on?

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

So when we think about Watch, what we thought about was creating a place where people could find content and have a specific place to find it and engage around it. And some of it will be longer form content. So there's a lot of video on Facebook. But it flows through News Feed. So it's not categorized or cataloged. So if you want to find something, you have to find it in News Feed or go to that page. Watch is trying to solve that problem by having a specific place where you know you can go and find content in a predictable way. Because we have to kind of stock the shelves - you can't like start a tab and not have anything there, we funded some of the content ourselves. But it's still the case that more of the content on Watch has been provided by others and not paid for by us. And that's definitely the business model going forward.

When we think about what we're interested in, we're particularly interested in content that has a social interaction around it. So Tom vs. Time, which is a great show and people really liked, Tom has a very active fan club and a very active fan group on Facebook. And that means that there's a community around that content. They're not just watching. I don't know, you look like you're in them. That smile says I'm pretty sure you're in the Tom Brady fan club.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

I am a Tom Brady fan.

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

You are? Okay. Well you could just kind of tell. But that -- then you know that, that fan club -- anyone else?

**Brian Thomas Nowak** {BIO 16819013 <GO>}

I'm wearing a jersey (multiple speakers)

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

Admit it, come on. Hands up. Who else is in the club? Look, we like it. Got a couple other hands. I think some of you are not admitting it. But that fan club is really active. And that fan club is keeping the conversation going. And so I haven't seen that data. That 40% of people that are in there, that's great. What we want to make sure we do is provide a unique experience and a social experience and a place where people can find the content they're looking for and share it. It's still the case that 40% of -- our 40% is -- 40% of our video views are coming from people sharing. So it's a very - video on Facebook has been a very social thing.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Understood. Greatest player of all time. Dave, on the last earnings call, you talked about CapEx and the operating expense outlook. Some would argue that it seems a little bit aggressive in the amount that you're talking about spending. So I guess maybe talk qualitatively about the biggest areas of CapEx and OpEx investment as you go throughout 2018.

**David M. Wehner** {BIO 2419389 <GO>}

Sure. So in 2017, we grew total expenses, which is what we give guidance on, at a 34% rate year-over-year. And we're talking about an acceleration in 2018 to a range between 45% and 60%. So a big step-up in investment on the OpEx and cost of revenue side. What's driving that is really 3 key factors driving the acceleration. The first is the one that Sheryl talked about, about the big investment that we're making in security and integrity. That's across a number of fronts on the product. We're investing a lot on the people side. So Sheryl talked about the 14,000 people that

we've got working on product integrity, on community operations, on ads review. That doubled in 2017. We're going to ramp that to 20,000 in 2018. So that's a driver. So that's one, the big investments we're making there, driving the acceleration.

The second one we also talked about, which is the content investments that we're making on the Watch tab. So we're investing in content. And that's going to drive the expense growth. And that's -- so that's an investment that isn't as dependent on hiring people, right? So it's something we can get out there and deploy pretty readily. So I would expect to be spending a lot there. The third is all of the investments that we are continuing to make and grow at a higher pace than the rest of the business around AR and VR, AI and also connectivity. So our -- what we call our sort of -- our long-range or 10-year initiatives. So that's the other big area that we're investing in. So those are the 3 big factors driving the acceleration of expense growth in 2018.

On the CapEx side, we're planning on doubling CapEx to \$14 billion to \$15 billion in 2018. And there, I think, we've got a couple of factors going on. First, we're investing to just make sure we're prepared for the growth that we expect. So data centers are 30-year assets. It's better to be ahead than behind on those. So we've got, I think, it's 11 data center regions globally. We're investing in developing those. We're looking at new regions. We want to make sure that we're ahead of the curve, not behind the curve, on the investments that we need. And we need to make sure that we've got the right capacity to manage the business effectively and make sure that we can deliver on all the products. The second thing that's important is we're also seeing an increase in capital intensity in the business as it relates to a few different things.

One example is, just as we support our growth globally, we're not going to have as high a revenue per user as we would in the U.S. when you look globally. And the costs are more similar. So we're going to have some difference in capital, sort of our CapEx to revenue from that perspective. Then also, we're seeing really good returns on making investments in things like putting more compute power against ranking in News Feed, putting more compute power against finding the most relevant ad for you. And so we're going to continue to make those investments as long as those drive good returns. And I think we see some opportunities to do that. So we are investing to prepare for growth and also to really drive value in the business as well. So I think we see good opportunities to get good returns on these investments across both the operating expense and CapEx side.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Understood. So it's been sort of over 30 minutes, we haven't talked about regulatory yet. So we might as well. We get a lot of questions about the regulatory environment. So I guess the 2 questions I have on it are just, can you talk about how Facebook is preparing for any regulatory changes in the overall regulatory environment at a higher level? Then specifically focusing on GDPR, how should we think about the impact of GDPR on Facebook?

**David M. Wehner** {BIO 2419389 <GO>}

So on GDPR, I think, fundamentally, it's about how you design your products. And we design our products with sort of transparency and control as being 2 key fundamental factors. And that maps very well against what the GDPR framework is, is really seeking companies to do. So we think with transparency and control, we're set up well to be in a position where we're compliant with GDPR when the regulation goes into effect in May. And I think it embodies a lot of what we're trying to do with the products anyway. So what could be the impacts on the business? Well there's -- we don't know exactly what the impacts will be. I think we're going to be walking through permission screens for our European -- people using Facebook in Europe. So there's going to be different permission flows that they walk through on things like how can we use external content to improve ads targeting and the like on Facebook? Whenever you walk people through permission screens, there's some potential that people don't -- either they decide they're not going to use the product, there are some -- there could be some implication on DAU. We don't know what it'll be. We don't think it'll be big. But there could be some implication there. So we'll be watching that. The second possibility is just it may hinder some of our ads targeting capabilities in Europe to some degree. We don't know exactly. Again, we don't think that, that's going to be a big impact. But we'll be watching that.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Sheryl, there seems to be a lot in the press about questions on social and backlash against social. Can you just maybe talk about your view on that and how you think about Facebook's positioning and the societal -- not backlash. But almost negative impacts on society from social right now?

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

We think a lot about our product and responsibility we have to be good for people's well-being. We announced a change at the beginning of this year around meaningful social interactions. And so what the data shows, I mean, we try to research this well and thoroughly, is that not all interactions in social media are equally good for people in terms of their psychological well-being. When you're interacting on social media and you are sharing directly, communicating, engaging, it's actually pretty positive. When you are more passively viewing, it's not clear that, that's as positive. And so what we did was announce the change in News Feed that's rolling out that will really prioritize the more direct, the more social interactions over the more passive forms of viewing. I think what you're going to see from us continually is we've always built privacy and safety and security into our products. And we're going to continue to learn and study and make investments and make sure that people are having a good, a safe experience and, importantly, an experience that's additive and positive to their lives. We believe that if people are having a good experience and continue to have that, they'll continue to share and we'll continue to grow.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Understood. Earlier on, you spoke about the SMBs and a lot of the advertiser accounts, et cetera. One of the other areas that you seem to be focused on -- there

was even something in the press today about Facebook Workplace and kind of starting to move more into the enterprise side. So maybe talk about that potential business for Facebook. How do you get into the enterprise or Facebook for Workplace business?

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

So I'll talk about Workplace briefly. But the heart of our SMB work is really worth some time. So I'll do that, too. Workplace is Facebook for work. It's another app, put it on your phone or on your desktop and it allows you to have a Facebook experience that's solely with the people you work with. We've used Facebook internally for a very long time. And we always had a product where we could keep our current employees on and anyone who left the company off. And that's what you need in order for this to work. And so we just rolled that product out. I think we now have 30,000 companies that are using the product. And it does exactly what you think it would do. It makes interaction informal, faster, brings community together. We're hearing great things from large partners like Starbucks who have told us that it's really helping them get closer with their employees and their employees closer with each other.

That's very small compared to what we do in SMBs. So we have 70 million small businesses, 70 million that have Facebook pages that are using them every month. We have 25 million small businesses with Instagram business profiles that are active every month. Those are really unbelievable numbers. And what we are able to do is really get to the heart of helping them drive their business. And this is something that I was really excited about. I will -- I've been at Facebook a decade next month. But I remember when I was considering taking this job. And the SMB opportunity was one of the things I could just see and was much -- was really compelling for me. So think about small businesses in generations past. My grandfather owned one. You had to buy -- get a lease, borrow money, start a store. The way you could market -- was marketing in your Sunday circular or in the local newspaper. All of these things are great; they're expensive. When you think about what small businesses can do now, anyone can start from everywhere and use Facebook to market. I was in Europe last month. And I met with a whole group of them. But just to share some of my favorites. There's a barber in the U.K. He built an app that you could -- he markets entirely through Facebook. And he built an app where you can schedule your appointment and go on time. He now has 17 locations and has been employing all these barbers.

There's a guy from a small town in Italy making fish paninis, who markets them entirely on Facebook. And his business is growing and more hiring. And a woman from Sweden who started selling baby clothes in her living room. Her husband's Romanian. They've now moved to Romania. They have 100 people employed. And they're making those baby clothes in Romania. And they're selling them all the way across Europe. What's exciting to me about this is that those are the most off-line businesses in the world. This is a tailor, a barber shop and a chef. And when we think about one of the biggest underlying challenges that I think talk to the economic and security, some of the polarization, economic and security and fear of jobs, fear of

jobs in a world that's more automated, is so important and so palpable and, I think, causing a lot of the concern people have.

When I think about 70 million small businesses on our site -- we just did a survey in Europe, 45% of the small businesses who use Facebook in Europe are hiring. And they attribute that to the 50% of them who are growing sales because of us. And so we have a responsibility and an opportunity to do good in the world. And I think probably one of the best ways we already do that. And we're really doubling down to invest a lot more, is working with small businesses to grow jobs. More than half of job growth in all of these markets is small businesses. And this is how they're growing and that's really exciting.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Yes. It's the platform. It's the reach of the platform. The last one, Dave, capital returns. You have, at the end of last year, over \$40 billion of cash on the balance sheet. You do have a share repurchase program at this point. But just can you talk us through a little bit Facebook's capital allocation strategy when you think about how to allocate funds between M&A, shareholder returns and its organic investment?

**David M. Wehner** {BIO 2419389 <GO>}

Yes, sure. The focus is really on, first and foremost, investing in the business where we can drive good returns and drive great value for the community. So the biggest focus is (inaudible) there. And that's why we're ramping up the investments that we're talking about across a number of different areas, whether it's supporting small businesses with the right ad tools or improving the quality, the experience with the investments we're making on the integrity front or just building up the data center capacity that we need to improve the services and deliver the services globally. So that's really the main focus of the capital allocation strategy. We do have an active share repurchase program. We repurchased \$2 billion in 2017. We've got a \$6 billion authorization. We'll still be doing share repurchase to offset dilution. So we plan to do that. But the focus is really growth. M&A, we've been -- we'll continue to do M&A on an ongoing basis. It may -- mainly it's been tuck-in acquisitions and finding specific areas where we need to augment our capabilities.

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

Can I steal our last minute and answer a question you didn't ask? Is that okay?

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Yes.

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

But in this room -- no, I think this is really important. I think this audience will think it's important, too. I think we're in a really important moment in time for women in the

workforce. And the Me Too Movement has shown how pervasive sexual harassment has been. I think it also shows. And this is important, that there are a lot of very good people and very good men out there trying to do the right thing every day and we all have to work together. I've been very worried about what I perceive of as the possible negative impact or backlash on this. And this is what I think it is and I really want to share this with this audience. Because I'm looking out at a lot of very important men who run big companies and big firms. And you guys can make a big difference. And investors, you guys have a lot of power and you can make a big difference by caring about this.

So my foundation, Lean In, we just did a survey on this. Post-Me Too, 47% of male managers in the U.S. are afraid to do basic work activities with a woman, including have a meeting. Male senior managers in the U.S. now say that they're 3.5x less likely to -- more likely to hesitate to have a work dinner with a junior female colleague than a junior male colleague and 5x more likely to hesitate to travel with a junior female colleague and a junior work colleague. For all of the people here who want returns, you want returns for your investing firm, you want returns for the companies you invest in, we know that diverse workplaces give better return. One of the things that's held women back. And particularly women of color, getting into leadership roles is that even before Me Too -- this was true when I published my book five years ago -- women are much less likely to get mentored than men. They're much less likely to get that informal time. Women of color are much more less likely than white women.

And so we have this incredible moment in time where the behavior that never should have happened will stop, where we can develop and mentor women to get them into leadership roles. But we just have to be very cognizant of the risks and make sure they won't happen. So what I want to say is make sure in your firms, access is equal. If you or the people you work for or the senior men in the companies you invest, don't feel comfortable having dinner with women, then they shouldn't have dinner with men. If they don't feel comfortable doing work travel with women, because that is very important informal time where you get the kind of time with your boss that gets you promoted, then they shouldn't travel with men or they should travel in groups. This is a moment for us to say, "Okay, not harassing us is important but basic. We need more. And what we need is an equal share of time and attention that gets women into the roles they need." And so I know it wasn't asked. Thank you for letting me take the moment. But everyone in this room is interested in returns. And if you want the very best returns from your own firms and the ones you invest in, take a moment to take this moment and help all of us lead by example. My foundation launched this about 3 weeks ago. We had about 45 very senior CEOs in the company pledge to mentor her. Go back, be loud and clear, especially if you are a man, that you are committed to mentoring women now more than ever. It will make a huge difference.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

All right. Thank you.

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

Thank you.

**Brian Thomas Nowak** {BIO 16819013 <GO>}

Thank you.

**David M. Wehner** {BIO 2419389 <GO>}

Thank you.

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