

## Morgan Stanley Technology, Media & Telecom Conference

### Company Participants

- Ben Swinburne, Analyst
- Dave Wehner, CFO
- Sheryl Sandberg, COO

### Other Participants

- Unidentified Participant, Analyst, Unknown

### Presentation

#### **Ben Swinburne** {BIO 5489854 <GO>}

Okay. We're going to get started. Good morning, everybody. Please note that important disclosures, including our personal holdings disclosures and Morgan Stanley disclosures all appear at the handout available in registration area and on the Morgan Stanley public website.

My name is Ben Swinburne and on behalf of Morgan Stanley we are thrilled to welcome to the conference our next keynote conversation, Sheryl Sandberg, Chief Operating Officer and Dave Wehner Chief Financial Officer at Facebook.

Sheryl has been in her leadership role at Facebook since 2008, previously, Vice President of Global Online Sales and Operations at Google. Dave joined Facebook from Zynga serving as Facebook's Vice President of Corporate Finance and Business Planning before becoming CFO in 2014.

And before we dive into questions 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. They precautions 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 2015.

In addition, please not that any forward-looking statements that Sheryl or David 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.

How was that?

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

Thank you.

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

That was nicely done.

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

That was good. And thank you all for being here. This is early West Coast time. So thank you. (inaudible) are here, really. No one's at Facebook at this time. So far, (inaudible).

**Ben Swinburne** {BIO 5489854 <GO>}

Well thank you both for being here. Really appreciate it. Maybe we'll start things off with Dave. You said 2015 up as a big investment year for Facebook. You laid out expense guidance for us a couple of earnings calls ago. Can you help us think about how those investment dollars are being prioritized?

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

Sure. So let me start with a little bit of a context. We ended Q4 as an incredibly strong quarter on top of a great year at Facebook. So in 2014, we added 165 million people to the service. We grew revenue 58% to \$12.5 billion. We delivered \$3.6 billion of free cash flow. So we feel like we're really investing from a position of strength and we also believe that we are still early in investing in this business. So we expect to invest aggressively.

Mark has talked about three, five and 10-year investment horizon. So I think it's useful to think about what we're doing in that context. So on the three-year investment horizon we're -- and that's really where the bulk of our resources are devoted. We're focused on growing the community and the business around that and that -- and you can think about that in terms of growth -- driving growth, engagement and monetization and making the product investments to do that. And that includes investing heavily in the ad products side as well. And in addition to that we're investing in marketing and infrastructure to support that growth. So again that three-year horizon is where the bulk of our resources are devoted.

Then there is the five-year horizon and there we're focused on building the next generation of services for Facebook. So those services include Instagram, Messenger and WhatsApp and there we're focused on growing those communities first and foremost and also improving those products and then building the business and ecosystem around those service.

Then finally, you've got the 10-year investment horizon and I call it a couple of things we're focused on there. Mark was just in Barcelona, talking about our Internet.org initiatives and there we're really focused on helping with the work of the operators as well helping connect the next 4 billion people to the Internet. We think that's important for our mission, it's important globally and it's good for our business in the long term. Then as well on the 10-year horizon, we're investing in what we believe is an important next generation computing platform, which is our efforts with virtual reality with Oculus.

So in summary, I'd say we've got our core investments in the business and then we're layering on top of that investment in areas that we think will drive the long-term growth of Facebook.

**Ben Swinburne** {BIO 5489854 <GO>}

That's very helpful. Maybe we can dive into some of those as we go through the conversation. I want to focus on products, Dave, first which is, can you talk about the WhatsApp acquisition and how investors should think about messaging in general in Facebook over time.

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

Sure. Obviously we made a big investment in messaging in the past year, both with --

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

Let's ask everyone, how many people here use WhatsApp? Raise your hand? Nice.

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

Good, that's good. So yes, -- we've definitely made a big investment in messaging and messaging is really core to the mission at Facebook. Our mission is to give people the power to share, to make the world more open and connected and messaging is real part of driving that connectivity between people.

If you look at WhatsApp and Messenger respectively, they have 700 million and 500 million users. There's 30 billion messages per day WhatsApp alone. So in a minute that's like 20 million messages which is probably the amount of time I have just been talking to answer this question. So it's just an incredible amount of engagement.

But we still think we're early in what we can do with messaging and evolving that service and investing in those products, both on Messenger and WhatsApp. So we think there is lots of opportunity.

We've got some of the best teams in the industry both at WhatsApp and at Messenger focused on those opportunities and we think there is a real opportunity

to both grow the services and also eventually grow the business and ecosystem around those.

**Ben Swinburne** {BIO 5489854 <GO>}

Great. I want to turn maybe to the content side of the equation. We're going to hear a lot at this conference about the future of content, particularly online. Sheryl, how are you thinking about public and premium content on the Facebook platform as part of your business?

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

We are not very focused on premium content. We view this differently [ph]. But what we think of as premium content is long-form content that someone is paying a subscription or paying a field play and that's not basically what Facebook does.

We're very focused on public content. So when you think about your experience on Facebook, the quality of your experience is the quality of your News Feed experience.

So I should do the same thing, how many people use Facebook? How many people check Facebook at least once a day? Great.

**Ben Swinburne** {BIO 5489854 <GO>}

We have so many people on Facebook right now.

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

Good. That's good. We're for that. (inaudible) but the quality of your Facebook experience is the quality of your News Feed and Facebook really started out as friends and family and then it's really gone also to the public content and we've become a bigger and bigger driver of public content.

So you look at news as one example. We are the second largest provider of news in United States after local CDs. 39 million Americans are getting news from us. And we're driving about 22% of webcast and we're driving a proportional amount on mobile. And so, what you're seeing in a News Feed is still your friends and your family. But increasingly you're seeing content from celebrities, which we consider public content, content from news, sports, entertainment. And I think this is part of a big shift we all have from being observers to being participant.

The Super Bowl, 114 million people watched the Super Bowl this year, at this 65 million people discussed the Super Bowl on Facebook. That's more than half. And that means that increasingly as we are doing things we look to Facebook.

Another thing that happened for us in the public content area recently was Jeb Bush -- Jeb Bush announced his exploratory committee on Facebook which is pretty different than what you would think before of a presidential hopeful announcing an exploratory committee. And it showed that he and I think others want to have a more direct relationship because the difference between holding a press conference and doing it on Facebook is the ability of users comment.

And so I think public figures of all kinds really want that benefit and people who are producing content, news, sports, entertainment are really wanting to engage audiences more.

### **Ben Swinburne** {BIO 5489854 <GO>}

Great. Let's take the content piece and jump into the advertising business. You had a tremendously successful 2014 as we all know, looking at the numbers and you continue invest significantly on the ad text side. But Sheryl you talked on the earnings call about capitalizing on the shift to mobile, one of your key points. Can you elaborate on that for us and what mobile means for Facebook over time?

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

For anyone who has watched us over the last number of years, the shift to mobile was a scary thing when it happens and now I think it's paying off for us in a big way.

During the process where we are going public, the shift to mobile is happening much faster than anyone could have expected and then we could have expected and we had no revenue on mobile.

And we had to do two things. We had to make a fundamental platform shift and a revenue shift. The platform shift was that our apps didn't work very well. We had that on the wrong technology on HTML5 with the idea that it would be great to build one app and have it work everywhere, or one product that have it work everywhere and the technology didn't keep up and native app worked faster, better, richer experience. So we had to rebuild our app for a native experience and that was hard and Mark really led us through that.

And we also had to prioritize advertising on it. At the time, we had a choice. We had ads running on the right hand column or ads running in News Feed and the News Feed apps should obviously be part of the mobile experience. And we really prioritized pushing our ads into News Feed and getting marketers comfortable there and getting consumer used to there and we took some real hits in the short run but to build the business.

I think today we have by far the best mobile ad product out there and that's because we have a really core strength in mobile and because our ad product is well integrated. We get about one in nine minutes on your desktop but Facebook plus Instagram gets more than one in five minutes on your mobile phone and we are bigger than the next several services combined.

Within Facebook what people do more than anything else is in their News Feed. So we get a huge portion of people's time and attention and it's in the News Feed and our ads integrate really well into mobile. And so, the consumer shift is there, our product shift is there and obviously our business is growing.

We think there's a lot of room to grow. Right now in the US consumers spend 25% of their media time on mobile and it's about 10% of the budget. And to put that in perspective that means US marketers spent \$0.07 per minute -- \$0.07 compared to \$0.80 -- \$0.07 on mobile compared to \$0.80 on print, huge gap for what people's time and attention is worth. And we think as consumer time shifts to mobile because our ad product is just strong on mobile, we'll be able to continue to build our business.

**Ben Swinburne** {BIO 5489854 <GO>}

The other area within mobile and broadly that's booming is video. And that's sort of where everyone is focused on the next phase, not that mobile doesn't have a lot of legs, it certainly does. But how do we think about the video business for you, the momentum you are building? You talked about 3 billion views a day. How does the ad community understand and utilize and leverage the video on your platform?

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

Video is definitely exploding. We just announced, you referenced it, that we are at 3 billion videos a day which is pretty incredible. And basically this is the power of mobile phones.

So every person in here, almost every person I imagine, has a phone which has a 100,000 times of computing power of the computer that sent the man to the moon in 1969 which since the year I was born I like to remind people isn't actually that long ago, even though it seems like a lot.

**Ben Swinburne** {BIO 5489854 <GO>}

Completely agree with you, Sheryl.

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

Completely, great. We are the only few people in Facebook who think that isn't a really long time ago. But we stand by it.

But even in the last two years, this conference two years ago most of us would not have had phones that could easily, quickly load and play a video without buffering and being super slow and annoying. And now almost anyone in here on your phone you can quickly play a video. So along with that technical capability, consumer video is exploding.

The consumer video explosion on Facebook is what gives us the ad opportunity. We've always wanted our ad to fit in. It's part of why they do well. If you run your consumer videos on Facebook and looked in your News Feed and all of a sudden you had rolling ads that would be pretty destroying and I think we would get a lot of criticism that our experience is too commercial. It is because we have 3 billion a day which are almost all consumer. We have the ability to build the video ad business and that's for us is hugely exciting because one thing marketers love is video. That's why TV has done so well for so long even as the shift to mobile is happening, because it cites our [ph] emotion, is able to tell a story and create an emotional connection the way very few things are.

**Ben Swinburne** {BIO 5489854 <GO>}

How do you think about increasing your advertising load on video? Having seen a lot of demand there. But generally you want to be careful, some of the (multiple speakers) perspective.

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

A lot of demand. Two things, we want to be careful from a consumer perspective. So we continue to ramp slowly. It's out there for purposes of this audience worth noting that not all video ads for us are incremental because some of that is replacing other ads that otherwise would have been in News Feed. But I think video is a richer experience and our advertisers are really excited about it. And I think it's because we offer the broad reach of a Super Bowl. We have a mobile Super Bowl in the US every single day on Facebook. But then this ability to target much more exclusively.

If I give you an example, this Super Bowl Lexus ran an ad for their new NX model, they ran a Super Bowl ad. On Facebook, they ran a 1,000 different 30-second spots within right before and after the Super Bowl. And they were targeted based on people's unique interest and then the call to action was based on your demographics and your age.

So for example, if you are a fashion lover and you live in New York in that Lexus ad you would see Fifth Avenue. If you're a fashion lover in Dallas, in that Lexus ad you would see McKinney Avenue. Then the call to action would be different based on whether you are a current Lexus owner or a non-current Lexus owner, how old you are, how likely they thought you were to be down the purchase tunnel. That's pretty incredible if you can get the reach of the Super Bowl with a 1,000 30-second spots. And so that kind of video opportunity I think is unprecedented and -- but not all incremental.

**Ben Swinburne** {BIO 5489854 <GO>}

The other area I hear a lot of advertiser interest in is in Instagram. And maybe over to you, Dave, can you talk about how you think about driving that business and growing it from a revenue perspective and evolving the product over time?

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

So Instagram is pretty remarkable in a lot of ways. I mean, one of the things by being part of Facebook, I'm not sure Instagram always gets its due for just how big it is. I mean it's got 300 million users which would make it the largest social network outside of China, excluding Facebook. So it's built a huge audience and it's really allowed people to share their lives and tell their stories in unique and visually engaging ways and that's been important not only for the people who use Instagram. But also for the public content side of it as well.

So you see photographers, you see journalists, celebrities, athletes sharing their stories and connecting with their fans and followers on Instagram. And it's been really powerful for them. And so, I think we continue to evolve and invest in that product, both in terms of making it a better engaging experience, continuing to grow the user base and also working on the monetization side.

**Ben Swinburne** {BIO 5489854 <GO>}

Dave you mentioned in your answer on the investment side that you're investing a lot internationally. So I want to ask you about outside the US at a high level, how you're thinking about your priorities there and strategies to grow that business because we've seen the US growth is tremendous. But it's still at its pretty early days internationally for you.

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

Yes. So I think first on international I'd look at this growing the overall usage of Facebook and what we find is being social is the fundamental human need and every place that we'd launched Facebook we've seen great success with adoption and it's really, I think, been surprising how much penetration we've gotten with Facebook to the people who've worked there in the sense that we thought getting to 35% penetration would be great in end markets and we're seeing in some markets getting to 90% penetration. So it's been pretty remarkable.

One of the things that we have inside Facebook is this thing we call the friends map which shows on a big board a map of the world and it shows thin filaments of light that illuminate every friend connection and it's been remarkable just in the time I've been at Facebook to see how much of that map has lit up and that places like South America, Africa, Asia it's been pretty remarkable.

In terms of the business, because I think we're also seeing good success on the business front. So in 2014, we had over 50% advertising growth in all four of our key geographic regions. We have over 30 global sales offices. We have 2 million advertisers and those are scattered across the globe. One of the things that I think unique about Facebook is we provide a platform for global brands to reach people across the world. So we also provide a platform for small businesses to reach the people that are right next door to them. So it's pretty unique and I think that power is what allows us to really grow globally.



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**Ben Swinburne** {BIO 5489854 <GO>}

I wanted to talk about brand, small business and the advertising business in general. Sheryl, when you think about the advertising business over time, how do you see the marketers are going to leverage Facebook down the road relative to what they're doing today, particularly brand -- on the brand side?

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

We've gotten good adoption. I would say, seven years ago when I started friends hadn't really experimented on Facebook and now we're increasingly important. But even for our largest customers, we're still a tiny portion of their budget and I think we grow that with better products including video. But also with helping take advantage of the targeting we offer.

So targeting for digital ads is actually not very good, it's better than TV in many ways, right, because TV isn't targeted at all and it has a broad reach. But even if you look at things that are age and gender targeted, we think Facebook targeting is about 45% more accurate because we actually know who people are and we can serve ads in a privacy protected way. Without giving out identity we can serve ads to the right people. But then we have really one of the main investments we're making and I've been talking about it on every earnings call is in our targeting abilities. So we built custom audiences which is our suite of proprietary targeting products and what it enables you to do is, marketers can take their data, connect it with ours again in a privacy protected way and segment audiences.

So I'll give you an example and talk about who is one of our colleagues from Canada, because she loves Canadian examples. Joseph Nogucci is a fashion accessories designer in Canada and what they did is they used their data, connected it with ours and they identified who their customers were in Facebook they could send one set of messages to them. But then they worked with our targeting systems and we were able to identify people that on basis of age and gender and location and characteristics and interest, they look like their current customers but are not their current customers and able to show another whole set of ads to them and now we're getting 80% of their marketing budget because they've never seen anything this effective.

And so the ability to have the broad reach of a Super Bowl every day. But to do this kind of micro targeting, identify people who are like your customers, do a 1,000 different 30-second spots for Lexus, we think that's pretty unique and we're working hard with our clients to ramp up their use of this proprietary targeting but it takes time and it takes investment and I think we're still at the beginning of the process there.

**Ben Swinburne** {BIO 5489854 <GO>}

I know a small business is also a big important business for you today. But how are you approaching that segment particularly when you think about the global small

business opportunity?

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

The small business opportunity at Facebook is big. It's actually one of the reasons I took the job because I thought it was such a big an untapped opportunity. There are probably, no one quite knows, there are 125 million small businesses out there in the world. There are 30 million small businesses that have a small business page on Facebook which is incredible because we've never had an outbound sales effort to do that.

And small businesses are notoriously slow adopters of technology. 35% of small businesses in the US have no web presence. Yet we have 30 million small businesses on Facebook and I think that's because it's free and it's easy. Even building a webpage is actually part and takes money and investment. And if you're a small business, that's a complicated thing to do. Setting up a Facebook page for your business is just like setting up a profile and since you're almost certainly a Facebook user, you know how to do it and it's free.

We just announced last week that we have now 2 million active advertisers and that's a big increase for us. And the way we got there was massively simplifying our ad product. Two years ago if you wanted to convert someone from being a prepaid user, free page user and owner to an advertiser we would spend them e-mails and contact them and say would you like to become a Facebook advisor, which can count on things. Now when they do a post, we post on same page [ph] would you like to promote this post to more people for \$5 and through these super simplified products like promoted posts, we are able to convert our free page customers into paying customers and into advisors. And I think that's pretty exciting. I don't believe anyone else is touching small businesses as many or as deeply as we are and I think we're barely scratching the surface of what we can do.

**Ben Swinburne** {BIO 5489854 <GO>}

You talked about the evolution of brand and small business. What about on the agency side, how are your relations with the big agencies that control a lot of the brand dollars, how is that evolving?

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

Agencies are important to us. And agencies have always been wary I think of technology shifts and I think the original shift online was complicated for them because a lot of what online advertising meant was search space and the creative processes perhaps not as important in a search page text size as it was in TV. But with us the creative really matters because we are doing photos and Instagram and video and creative spots. And so agencies have been really important. So we work harder on our agency relationships.

We're also working hard on Atlas which I am assuming you'll ask about at some point. But our Atlas and our ad tech strategy really depends upon agencies coming on board. That is something that really matters to us.

I think we try hard to be good partners to the agencies and we hear from them that we are and it's very complementary because we offer them distribution for products they make and we really want them to develop creative for Instagram or Facebook because creative best developed process will work really well.

**Ben Swinburne** {BIO 5489854 <GO>}

Let's go and talk about ad tech next since you brought that up. Particularly when you think about how big your mobile business and presence has become, how do you think about taking mobile what you're building with Atlas and ad tech and also bringing off the Facebook inventory into that whole system? It seems like a huge opportunity for you and the ecosystem.

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

Yes, I think there are a number of opportunities. We think about marketing as people based marketing, marketing to real people based on their real interest things they want to see. And that makes ads more relevant which makes some better consumer experiences.

When you're in your News Feed and you see an ad for something you're excited to see that's a good experience. When you see an ad for something you don't want to see that feels commercial instantly [ph]. So it makes it better for consumers. It also really increases the returns for marketers if you can show the right ads to the right person at the right time. And the problem with a lot of what has been ad-packed is that it doesn't work in today's world. The traditional systems for measuring and serving ads are quirky days [ph]. They treat every device as if it's a unique person. They massively over estimate their last click. So I bet you everyone in this room has three devices, a tablet of some kind, a phone of some kind and a PC. Our systems are able to recognize that you are in fact that same person and we understand that no matter what device you're on, we are showing you the same experience which is in your News Feed and that has enabled us to measure more carefully and more accurately.

We're also better at getting the visibility all the way through and we worked harder on our measurement systems to try to bring those along that you can measure, not just seeing an ad and clicking on an ad but also purchasing. That also really matters in our space. 90% of the people who will see a Facebook ads and then buy something will never click on the ads because we are not searched. And so, the right measurement to measure what we are delivering is super important to our growth.

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

Yes, I think on the measurement front, I just know I spend a lot of time with -- as we invest in marketing with our Chief Marketing Officer on that measurement front. And having that data that Facebook can bring to be able to really put a point on what the ROI is that you're getting is really important. And I certainly know that as marketing becomes more quantitative, there's lots of relationships like that'll be important within companies who are thinking about allocating their capital sensibly to marketing and I think it's a really great platform that we've built to that.

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

And it's an important role that David play right because he is both our CFO but we are marketer. And he sits in the meetings on the marketing which is another part of the job I work on. He's like, are we getting a return, this is a lot of money, how to we measure it. And those conversations he's been really helpful in forming our team and our measurement team what the CFO on the other side of the table when we are on, they want to see and how important it is to prove those results. Every company has a person measuring its spend and that's good for us because if we can prove to the CFO, not just to the CMO but to the CFO that we have the most effective vehicle they have out there and the ROI is higher, our spend will increase.

**Ben Swinburne** {BIO 5489854 <GO>}

I think you launched Atlas officially at Adweek last year in New York and globally. But what's been the reception from the agencies in particular who can be pretty sensitive about sharing data, they have a big Omnicom relationship. How has sort of opening receptivity been to that product?

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

It's good. Omnicom was first and we announced it when re-launched Atlas. We already had them signed up. We have (inaudible) and increasingly numbers of clients who want to try. And again I think the offer is pretty compelling because it's people based measurement and it can go anywhere you are that you can really understand who you are marketing to and what your real results are.

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

Yes. I'd just add that it's -- I think there is a lot of receptivity to the messages that we're putting out there with Atlas. Of course this is at the end of the day an enterprise sale. So this is going to take time and we're early in the process.

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

Yes. This is long and slow.

**Ben Swinburne** {BIO 5489854 <GO>}

Let's turn maybe to some financial operational questions in the time we have left. May be for Dave, hiring is a big focus of yours and your competitors out here. What's the hiring environment like out in Silicon Valley and how do you make a decision on how many people to hire, how much to spend?

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

Sure. So of course investing in people -- in our people is the biggest component of our expense profile and we grew headcount 45% in 2014 to just under 9,200 people. So it's a big investment that we're making. We're really proud of the fact that we have an incredibly productive pool of employees.

If you look at almost any measure, revenue per employee, profits per employee, we're really pleased with what we're able to accomplish with the people that we do have. And we see lots of opportunity for growth and that's what's driving of course our hiring, investing in the products that we want to build and investing in distributing those products. So that's a big part of it.

In terms of how effective we think we're being, recruiting is obviously the top of the funnel there, things like making sure we can reach out and get the best and brightest people in the industry and the people coming into the industry. We are just rated the number one place for interns and internships are a very important part of securing the young talent that we need at Facebook. So we're really excited about that.

After we bring people in through recruiting, we have a rigorous do-can [ph] process where we bring people up to speed on how to develop on the Facebook platform and bring them into the culture. That's incredibly important. Then on an ongoing basis, we invest in building their careers, measuring how they're doing, giving them feedback. All of these things are really important to making it a great place to work and also making it a place where we can deliver amazing results which is what we expect from the best and the brightest that we're bringing to Facebook.

At the end of the day, I don't think there is a place that has a mission like Facebook or that can have a platform for impact like Facebook where you're able to get your products out in front of billions of people. So it, I think, makes us an incredibly compelling place to work and we see that playing out in our recruiting efforts. Obviously, it's a competitive market for talent but we feel like we're doing well.

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

On a macro level it is amazing that our country doesn't turn out more computer scientists that we spend a lot of the people we train here at home without visas. The competitive hiring for computer scientists that every single person in here, you've got kids, teach them the code, because that's how they are going to have jobs. With no matter what happened even in 2008 with all the unemployment, there are always more engineers to be hired in Silicon Valley than we can hire. That's a pretty interesting gap for an economy to continue to generate, particularly one in United

States where we'd like to stay very globally competitive. We need to train more computer scientists, all of us, us as parents, our country, our education system.

**Ben Swinburne** {BIO 5489854 <GO>}

I want to pick up on that hiring point and just let the audience know if you have a question please raise your hand and wait for a microphone to come on over and I'll ask one more and we'll turn to the audience. So as a management team, how do you think about long-term profitability, balancing margins with the investment needs of the business when you put together and think about all these investment opportunities that you have?

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

Sure. We're blessed with being in a high-margin core business of advertising. So that's fundamental. We also believe that we're very early in the opportunities that we have to grow. So we are investing in our overall growth strategies and I talked about the three, five and 10-year strategies to do that. So we don't have a particular target margin that we're going for. We're really looking at the opportunities we have to drive long-term growth in investing against them. That said, we are disciplined in how we invest, we take capital allocation very seriously and also, we believe in the long run this is -- we're operating in businesses that have good long-term margin potential as well.

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

We also stay really focused. So we run all of our teams by having goals and non-goals and goals are obvious. But non-goals are interesting and it's something, I think, Mark introduced. A non-goal is something that's a really good idea. But you are just not going to staff because something else is a better idea. And what's interesting about that is when you put them out there they set as a benchmark to the team to prioritize against. So we did in fact launch an ad network. But for years and years my internal example of a non-goal is our ad network because obviously we should have an ad network. People like this would ask us all the time. But we had so many opportunities that we still hadn't caught up with to build the basic infrastructure of an ad system that we weren't ready. And you would watch the team prioritize and maybe say, yes, that's a really good idea and then the next person would say. But it's not as good as an ad network and that's a non-goal for this task.

And so, we talk about ruthlessly prioritizing. We have incredibly smart people. We give them an extraordinary amount of flexibility. We compensate them really well and we expect a lot from them. And one of the ways we as a management team because we don't really try to control what they do on a daily basis. But we prioritize that they work on. Like here's what we're doing, we want to see great things on Messenger. We want to see great things for Instagram. We don't have a thousand other projects that everyone is working on because we really want to (inaudible).

**Ben Swinburne** {BIO 5489854 <GO>}

That's great. Okay, let me see we have -- let's go over here. Can you just wait for microphone, please thank you.

## Questions And Answers

### Q - Unidentified Participant

Thank you. You talked about your value proposition in mobile compared to print, I think you said \$0.70 versus \$0.80 on cost per [ph] per impression.

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

\$0.07 versus --

### Q - Unidentified Participant

Sorry, \$0.07.

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

And it's a measure of time, \$0.07 per minute, per hour. \$0.07 per hour versus \$0.80 per hour.

### Q - Unidentified Participant

Okay, Good. How does compare --

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

And also that that's mobile overall versus print overall.

### Q - Unidentified Participant

Okay. And how does that compare on the video side compared to television incumbent? You see it similarly widespread?

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

I'm sure it's widespread but I don't know that. That was within an article I saw. But I don't know if someone has done that measurement. But here is what we know, in terms of time spend, people are spending more and more time on mobile. So last year at the beginning of the year was the first time those lines crossed. The average American spends four and half hours on TV and that was bigger than digital for a very long time and then it crossed. And today the average American is at five and three quarters hour on digital and most of that is driven -- the growth is driven by mobile compared to four and half hours on TV. Yet TV -- I mean mobile sorry -- digital totally only has 10% of the ad budget and video a good portion of that. So we definitely know that more money is being spent per time spent on video, on TV than on mobile and I think that gives us the runway.

## Q - Unidentified Participant

Right. Then if you have both superior reach or very good reaching in superior targeting, what are some of the frictions, why aren't print [ph] dollars moving more quickly from television to your platform?

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

Well we feel pretty good about our growth. And so we're pleased with the growth we've been able to put up quarter over quarter and that's been good. This takes time. If you are a marketer, you know how people used to say no, I never got fired for buying IBM that was the phrase, right, that was it, someone, no. I think that was it, that may be old. If you are a brand marketer you know exactly how to buy a TV. You have been buying TV for your entire career. There's a huge process in your agency to set that up. Buying an ad on Facebook, a mobile ad, a video ad is more complicated and you've already been doing it last year. And so, it's up to us to make the buying process simpler which we are working on to show the results and do the measurement and we are doing that and it's going to take time. It's going to take time for those dollars to flow but we think they will because the reach is there even broader. The measurement is going to be deeper and better and targeting can be more specific and experience can be just as rich and emotional.

One of the main reasons people wait for a long time that more spend wasn't moving to digital is because all the marketers would say that TV sells my products. TV sells my product that's where I can feel the strength of the beautiful 30-second spot that I produce. Now, you can sell that on Facebook and increasingly across digital and I think we're going to see over time people understand that.

## A - Ben Swinburne {BIO 5489854 <GO>}

Great. Any more or I will take the last question? As we're walking down here we were talking about Mark's trip to Spain which I think you spoke today afternoon time over there. Focused on the relationship with the carriers in particular there was a big journal article this morning on some of the friction there. What's your perspective on working with wireless carriers, particularly in emerging markets where it seems like there maybe is the most opportunity for (inaudible)?

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

The mobile carriers are really important to us. We deliver their products, we deliver our products on their product and so those relationships are really important. They are also tend to be big marketing partners of us. A lot of them have always marketed. They often market their phones using Facebook. This phone is a big Facebook phone, there is a lot of that and also they are advertisers on our platform. What Mark is specifically doing is Mark as at the Mobile World Congress that we spoke a few hours ago in Barcelona. And he's talking about our Internet.org's partnerships with the mobile carriers. And that is a partnership where we partner with mobile carriers in different countries to offer free basic services and free data to people and it's a partnership with the carriers to try to get people onto data so that they enjoy it, use it and find an ability to become paying customers. We announced today -- Mark announced in Barcelona, our seventh partnership within Guatemala so



we now cover seven countries and the idea is how do we work with carriers that we're giving out free data. So people can get Facebook, get access. But it still grows their paying customer base and we're proud of the partnerships we've done. I think that's why we've been able to do seven and we're going to continue.

**A - Ben Swinburne** {BIO 5489854 <GO>}

Great. Well we're all at the time. But I want to thank Sheryl and Dave for their time and we look forward to talking to you guys this year. Thank you very much. Thank everybody.

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