

## 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 luncheon keynote. We're thrilled to have Sheryl Sandberg and Dave Wehner with us from Facebook. So thank you so very much for joining us. Before we start...

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

Thank you for having us.

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

Yes. That's -- it's great. We...

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

You need to read through the disclosures.

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

You need to read the disclosure. Yes.

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

Yes, I'll read all the disclosures so you can kind of relax, myself being the top of the list. All important disclosures, including personal holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). They're also available at the registration desk.

Some of the statements made today by Facebook may be considered forward-looking. These statements involve a number of risks and uncertainties that could actual results to differ materially. Any forward-looking statements made today by the company 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. We're good.

Thank you. So much for joining us. So Sheryl, the COO of Facebook since 2008; and Dave, you joined Facebook in 2012 and have been the CFO since 2014. This is your fifth year here at Morgan Stanley's conference. So thank you so very much for joining us. We're very grateful.

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

Thank you.

## Questions And Answers

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

Sheryl, I want to start sort of looking back at 2018 and the way we sort of operate the business now. You've talked about how 2018 was a tough year. And you said you made some -- a fundamentally different approach to how you're sort of managing the business and how you think about Facebook. What changed throughout 2018 now as you look ahead?

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

So 2018 was a really hard year for Facebook. And I think of it as a really important year, because I think systematically over the course of many years as we were building the business, we didn't put enough resources and enough investment into preventing harm. As we were growing the business, we were very focused on all the good it can do. And all the good it still does every single day. And I think we didn't foresee some of the ways the platform could be abused. And that's on us. And so what's happened in the last year is that we really are taking a very different approach to how we run the company. And this audience knows this better than most, that if you want to understand what the company cares about, look where it spends its money. And what you see from us now are massive investments in safety and security, more than tripling the size of the teams we have working on it. The most fundamental shifts in engineering staffing, which is always what matters at a tech company I've seen since I've been there, where every single team has a security team, has a safety team as part of its work. Big efforts to decrease the spread of misinformation, big efforts to make sure people understand that it's their information and they can use it. And for transparency. And so we're running the company in a fundamentally very different way. And I think one of the questions people have for us is, can we do that while continuing to build our community? And I think our last earnings showed that we can. So we now have 2.7 billion people using any one of our family of app services. So that's Facebook and Messenger and Instagram and WhatsApp. This Facebook app growth is strong. We're at 2.3 billion people using it monthly, with 66% coming back every day, which has actually been holding nicely.

And a considerable increase from when I started over a decade ago, which was only 50% coming back. And so the commitment we have going forward is that we are going to continue to make big investments to try to prevent harm on the platform and see better around corners to prevent future harm. And we're going to continue to invest in our community and build products people want to use and build our business at the same time.

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

Understood. It's a very news-filled year. And it seems like there's still a lot of focus, at least in investor discussions that I have, around central regulatory changes, new regulations, things that could just change the way Facebook or online advertising evolve. How do you think about the regulatory risk for Facebook? And sort of how is that impacting the way you're managing the business?

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

So I think we are at a really important moment, not just for Facebook. But for our whole industry. When you look at the history of new technologies, what you see is that often there's this period where a new technology happens. And this goes back as far as the printing press, it goes to TV, it goes to radio, it goes to the Internet itself, where there's a period where there's something new and a lot of excitement and a lot of usage and a lot of celebration. And then there's a period of real concern. And I think we are in that period of real concern, where everyone's coming together to figure out what are the rules that are going to be written for this industry. And you see the big question. So the big question is really what kind of Internet do we want? And I think, we're not going to want an Internet that's out of control where anything goes. We don't want that. There are rules and regulations we already adhere to, there will be more. We have our own policies we've put in place. But we're also not going to want an Internet that's too tightly controlled, where any one government, doesn't have to be ours, is too tightly controlling what their people see, where people don't have a voice and the ability to express themselves. That's long been something our industry has stood against. And so we're in the process right now of working with other people in our industry and regulators around the world about what is the right kind of regulation. Regulation that's effective, regulation that can prevent harm while still allowing people to have free expression. And I think, importantly, regulation that's pro-innovation, because the truth is it's actually easier for big companies like Facebook, or other big competitors, to put in place things that adhere to regulation than it is for start-ups. If I think back to Facebook 10 years ago, GDPR would have been much harder for us then than it was now. And so regulation, in its core, has to be pro-innovation so that the next Facebook can happen as well.

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

Yes, yes. Scale. Scale matters. Dave, you made some comments to Wall Street about sort of a broad expectation for overall revenues throughout 2019. And I know that privacy and regulation is something that you've sort of talked about through that lens. So maybe talk to us about how you expect privacy-related headwinds, whether it's GDPR, Clear History, any other changes that Facebook may make to the platform potentially impacting the business from your perspective.

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

Sure. Clearly, privacy is a headwind for us in 2019. It's one of the factors that's contributing to our expected deceleration of revenue growth throughout the year. I'd say there's sort of 3 main drivers there. You've got sort of regulatory that Sheryl talked about, which was GDPR in 2018. And we'll continue to see impact from that. I think the regulatory arc will be longer-term in playing out. I think you're also seeing other factors. The other factors I'd call out is the platforms like iOS are making bigger pushes in privacy as well. And so that has the potential impact to business. Then on the third front, it's changes that we're making ourselves. So we've elected to roll out GDPR-type controls globally. We've done different moves like deprecate Partner Categories. Later this year, we'll be launching Clear History, which will also affect our ability to do third-party targeting for those who would clear history. And so I think, broadly, it's going to give us I think some headwinds in terms of being able to target as effectively as before. But that being said, I think we've been able to navigate this relatively well so far. And we certainly had some headwinds that we were able to I think do better than we expected in Q4. So I'd say the landscape is certainly changing in the direction that makes it more challenging to grow and gives a little bit less visibility into how it will actually play out.

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

And throughout the headlines and speculation around regulatory concerns, regulation, at the end of the day, in the Fourth Quarter, you still grew daily active users, to Sheryl's point, off a very big base in the U.S. and Europe. And so I guess the 2-part question is, what does that tell you about your underlying user base even through all the headlines? And how do you think about the U.S. and European DAU growth going forward?

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

So I think we've got a very compelling set of products. So just know that on Facebook, we saw 9% MAU and DAU growth. Now that's concentrated in the developing world, in Asia and Rest of World where we're seeing higher levels of growth. In Europe and the U.S., I think -- I broadly characterize it as stable. I think we grew slightly in DAU terms in both regions. But I think the outlook there is with Facebook, we're relatively penetrated in the developed markets. So we'd expect those to bounce around. When you -- still lots of good growth opportunities for Facebook globally. I think more broadly. And Sheryl alluded to this, we were -- we're thinking of Facebook more broadly in terms of the family of apps. So there's 2.7 billion people who use a Facebook product, one of the Facebook products. And we think that, that's really the best way to think about the size of the audience we're serving, because we now have multiple products generating revenue. And also we think it better reflects the size of the audience that we have. So there's 2.0 billion people using one of the family of apps products daily. So I think -- and we're seeing good growth across those developed and developing markets for the family of apps products. And Instagram is doing particularly well.

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

And Sheryl, to bring you back to the Fourth Quarter. So same questions within the advertising side. And you -- we have the headlines and yet the advertising results were still really strong, at least, in my opinion. Can you talk through some of the notable drivers of the strength in the advertising in the Fourth Quarter and how those will continue as we go throughout 2019?

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

When you talk about advertising, there's always the old joke "I'm wasting half my marketing budget, I just don't know which half." And I think those days are long gone in a sense that advertisers want ROI. Every business has a limited amount of money, whether they're the largest business in the world or the smallest. And what we say -- I say to clients all the time when I meet with them is, we want to be your best minute because your time is precious and your best dollar, euro, yen, pound you spend. And we want to help you measure all the way through from seeing an ad on Facebook, all the way through to purchase, or whatever outcome you're trying to measure. And I think we've been able to go to people and say we're going to help you drive that ROI and we're going to help you prove that your advertising is working. We announced in our earnings that we have now 7 million advertisers across all our services globally and 2 million on Stories. And those are big numbers. And I think it's ROI driven. And as we think about outcomes, one thing I don't think people quite understand is it's not just DR, or direct response, advertisers who are driven by outcomes. Increasingly, brands are as well. So if you are some of the largest brands in the world. One other thing is a lot of them in different verticals don't have a direct relationship with consumers. What Facebook and social media allows is a direct relationship with consumers, where even if they're not buying online, they can speak directly to them, they can share their product, share their vision, communicate who they are. But increasingly drive through all the way to, I want to register for something. I want to show up on a lot and test a car, test-drive a car. I want to get a coupon or I'm going to go into a store and purchase. And so what I think the major trend is. But it's been true, I think, for the whole decade, I've been there. And as Mark launched the ads product even before I was there, is helping people reach the right person and helping people understand the ROI they're getting. And I think the more measurable it is, the more people understand it, the stronger the business will be.

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

Yes. You've always said, "the right ads to the right person at the right time." And I guess as you sort of run through the family of apps, give yourself a grade or maybe sort of talk to the apps where you think you've done a good job of that and how has that happened and what are at the apps where you really see the most opportunity to sort of improve that relevancy of the right ad at the right time with the right person?

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

Well I don't know if I'm going to grade us. But I'll tell you where we are in the life cycle which is, we've had ads on Facebook for a long time. Instagram is now big and growing and very important contributor to our business. Messenger is much more nascent. And WhatsApp, we don't have an ad product and that's much further out.

But your point on the right ads for the right products at the right time is exactly the right one. And this is where I think we need to do a much better job of communicating, because I think one of the things people fundamentally don't understand well enough about Facebook. And it causes some of the problems we see, is our business model. And Mark has published an op-ed on this. We're trying to speak about this as often as we can and as clearly as possible, which is that targeted advertising and privacy are not at odds. It's not just that we can do both, it's that we do, do both. Our goal is to show anyone on Facebook, you look out on this audience, there are people here with different tastes, different interests of different ages and even different locations. And so if I'm a local plumber in New York, there's probably some people -- maybe a lot of people here I want to reach. But if I'm a baker in Houston, you want to reach someone who is in Houston. We get along very well. But I bet we don't like the same movies. So the movie they want to show me the trailer would be different than the movie they want to show him. And what we enable is marketers, the largest to the smallest, to show the right ads to the right person at the right time. We don't sell information back to advertisers. We don't tell advertisers who you are. But we enable that targeting and we give back aggregated information. And it is that targeting that is explaining why, not just big businesses can do it. But small businesses. And it's pretty important actually to local economies. There are now 90 million small businesses that advertise -- that have presence on Facebook. Not all are advertisers, obviously. We only have 7 million advertisers. 25 million Instagram business profiles and these are businesses that are reaching audiences they want to reach. And the ones who choose to advertise with us, this targeting allows them to reach audiences. If you're a small business, you can't buy a TV ad even in a city and you can't put up a billboard and you can't buy a big newspaper banner. And so it's really the democratization of access that, that technology and that targeting allows. And we do it in ways that are very consistent with people's privacy. And I think that's something we need to explain much better because targeted ads are better ads, they're better for businesses, they're also way better for people. If you're going to see 2 ads and you believe your privacy is protected, you'd much rather see something that's relevant to you. And we need to do a better job explaining it so that we can continue to provide the job growth that we're providing.

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

Yes. And one of the media that Mark was focused pretty early on, talking about the importance of Stories. Stories' consumption was going to be a bigger and bigger part of the overall platform. And last quarter, when you talked about it here and you talked about it last quarter, you have 2 million advertisers spending on Stories. I guess, I'd be curious to hear about what are 1 or 2 of the biggest steps that drove that adoption of advertisers in the Stories format? And what do you see as sort of being the next drivers to bring more advertising dollars to the Stories?

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

I think what happens, both because of the way we develop. But also because of the nature of things, is that people -- consumers move to a product before advertisers do. The consumers were broadly using their phones many years before most advertisers were doing mobile advertising. And we had to help those advertisers make a shift. I think we're now seeing that with Stories. We now have 500 million

people participating in Stories on Instagram, 450 million on WhatsApp, 300 million on Facebook and Messenger. Those are big numbers. And Stories are a really engaging format. So consumers are there. Then the question is how do we get advertisers there as well so they can take an -- take this opportunity. Stories are engaging, interesting, they do not get monetized at the rate of News Feed so we have a lot of work to do ahead. But what we've learned is we need to make it easy for people to move. So if you look at the history, people have done TV ads forever. When they first started to put TV ads on mobile, they took their TV ads and they put their 30-second clips on to mobile and social. That didn't work as well, right? In a good TV ad, you often have a story and right at the end the brand comes in. In a Facebook context or an online context, you want that brand to be way earlier because people are scrolling through and you can see really good results. It also needs to be optimized for a different screen. And I think as we did the last transition, it -- we figured out later that we need to help people make that format transition. I think we understand that now. So now rather than tell people go create a story ad, we say, give us some pictures, some text and we'll create the story ad for you. You don't have to figure out where you want to place it. We'll place it. We'll take the targeting and we'll give it the best possible placement, whether that's Facebook or across our services. So the easier we can make it for advertisers to make that shift, the faster advertisers are going to shift to go where Stories are. And it's going to take time because it's a big opportunity for us, because the formats are so engaging and consumers are so engaged in Stories.

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

Let's sort of step back and sort of take a multiyear view or maybe multicore in the overall case. Do you think Stories' monetization could reach parity with News Feed? Or is that not a realistic goal?

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

So I think there's always different dynamics that go on in an auction system so that's something that you have to look at. So right now, I would say the growth opportunities from impressions are really shifted toward Stories right now, especially in the developed markets. So what that means is we've got a lot of supply. So we've got a lot of opportunities to -- for advertisers to find people through Stories cost-effectively. The Stories is growing really quickly. Feed now, at this point, both on Instagram and Facebook, it is levels where it's getting more challenging to grow things like ad load, especially in the developed markets. And so you're going to see slower growth from an inventory perspective from Feed. And there's a lot of demand for Feed so that's going to drive price on Feed. At the same time, there's a lot of Stories' supply growth opportunities so that's going to mitigate the impact of us improving the ad products on Stories, which will have a -- which will bring more advertisers to the product. But at the same time, we're bringing a lot of supply. So those things we'll just have to see how they balance out. But certainly, we know that we've got opportunities to make the Stories product much better for advertisers. Bringing more format types, especially direct response-type formats to Stories is going to be important. That's going to improve the number of advertisers that are going to want to bid for that inventory. So that's going to, over time, I think drive up the opportunity. In addition, there's some different characteristics around Stories. You're seeing stories you tend to spend less time on so you flick through them really

quickly. So that has sort of a downward pressure on price, because you aren't spending as much consideration as you would a Feed story. But you're also seeing more opportunities for impressions per minute on Stories. So there's some different characteristics. So depending on how you look at it, I think, we'll start to get to levels that are comparable to Feed. But it'll take years, not months, to get there. And at the same time, I think we're going to see prices in Feed -- with the amount of demand we have for Feed products and the supply growth, we're going to see prices for Feed going up at the same time. So I think you've got a lot of different dynamics going on. But good opportunities to grow both supply and demand for Stories right now. So that's one of the things that we're excited about.

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

Yes. I thought the ad impression growth that you've put up in the Fourth Quarter, the acceleration to the mid-30s is the best that you had since 2016, really was a testament to Stories contributing and the team is pretty healthy. So I guess, Dave, what can you tell us sort of about engagement trends you're seeing on the Feed and how we sort of think about the drivers of the Feed engagement and the Feed monetization?

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

Yes, I think we're seeing obviously a shift toward Stories being the supply growth. So more impression opportunity growth for Stories. I think on Feed, we're seeing a healthy dynamic and certainly a lot of demand for Feed units. So more of the Feed supply growth opportunity will be in places where we're growing MAU and DAU for Facebook and Instagram. So that's going to be more in places like Asia. Then you're going to see the developing -- the developed market opportunity growth for impressions to be in things like Stories. Now in 2019, that's going to be largely in Instagram, it's going to be Instagram Stories. I think beyond that, I think you're going to see more contribution from places like Facebook. But overall, I'd say, Facebook, from a Feed perspective, stability in the developed markets, opportunities for growth in the developing markets. And then Stories is going to be our growth driver for engagement and impressions.

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

I want to ask you about the commerce opportunity and sort of shopping. And Mark talked about this somewhat on the last call. You have the Facebook Marketplace. I've personally used it to sell a 50-pound steel anchor that was in the yard of a house that I bought...

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

How did that go?

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

Actually, it's sold in a day.

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



It's all good.

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

It was a lot...

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

There's demand...

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

It was \$50 for 50 pounds, \$1 a pound for a steel anchor. That's the going market. But there's a lot of liquidity. Things actually -- it clears quickly. I've tried selling old shoes, it works. Yes. So there's liquidity.

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

Wow. So people want your old shoes.

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

People want old shoes.

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

People want old shoes, These may be on the Marketplace.

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

We must have a great shopping product, that's all I'm saying.

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

Anchors and old shoes.

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

You could sell anything on this thing.

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

Exactly. And quick. And so you have the Marketplace. And then you have Instagram Shopping where you get introduced to different brands, whether it's Allbirds, Dollar Shave Club, (Maxwell), there's a lot going on in Instagram from a brand and an e-commerce perspective. So maybe, again, sort of a jumpoff for either of you. How do you think about the biggest steps you have to take to really capitalize on this e-commerce opportunity? And what's the monetization method? Is it advertising? Is it search ads? Is it transactional? How should we think about e-commerce evolving from this platform?

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

Well I can take it. I've also used Marketplace to sell. I've sold a Peloton so I may now have gained the 50 pounds that you lost by selling your weight. So I actually sold it to someone who's in this room.

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

Did you sell your shoes with it?

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

I did not. I didn't take that opportunity.

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

Shoes sold without...

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

I would have done it for free. But the real opportunity near term and probably even longer term is in advertising. Already, e-commerce is one of our largest categories. And we continue to have great success with a wide variety of e-commerce companies, from the largest to small start-ups. And we find more and more opportunities as the world evolves to serve those clients effectively. On Instagram, it's influencers who are also important in this ecosystem. So you're seeing them play into it. But there's so many great opportunities to introduce consumers to new brands through platforms like Instagram. Then Marketplace is a completely different angle where we're doing consumer-to-consumer commerce. That's also creating opportunities for ads for people who are selling e-commerce more broadly in Feed to be able to also sell into Marketplace. So we're seeing those opportunities come up. As we think about where we're going to want to invest, we're going to invest in things like Payments to make it easier for you to convert on-site to a -- for an e-commerce company to sell directly and be able to make those ads more valuable because they'd have higher conversion rates. So I don't think we'll be necessarily looking at something like a payment revenue mechanism as a big driver of growth. But more as an opportunity to make it better for connecting businesses and consumers on Instagram and Facebook. And being able to do that effectively, that value will probably flow through to more advertising opportunities for us.

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

If you're selling your Peloton Tread, let me know. I'm in the market. Facebook Watch, Sheryl, I want to ask you. So Mark said he expects 2019 to be the year where Watch becomes more mainstream. You shared some stats with us, 75 million users spending over 20 minutes per day on the product. Maybe the question's going to come down to, what types of content have you had the most success in driving that engagement? And how you think about kind of premium content and really driving more users and more time spent on Facebook Watch?

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

We have 2 products in the market right now. We have Facebook Watch and we have IGTV. And what they are, are different ways for people to do longer-form video

content and creators to put things out there and reach audiences. IGTV came from people -- us hearing that the 60-second limit on video in IG was too short and people wanted to do longer-form content. And Facebook Watch was us watching how -- try to watch a video on your phone 4 or five years ago, it buffered, it was painful. Now a lot of people are doing that. And we think that's a big opportunity for us. We've made cross-posting possible. And I think that's good. But I also think it's good that we have 2 products out there in the market, because it enables us to reach more creators. But also iterate and learn what works best. Watch is much further along. And we've actually tried to seed the market with some shows that we've helped create and helped to pay for. And it's going really well. Everything from Tom vs Time to what I think Dave says his favorite is going to be, which is we just picked up a Steph Curry show, which we're pretty excited about, to things like Red Table Talk. So Red Table Talk, if you haven't seen it, you should, it's awesome. It is Jada Pinkett Smith and her mother and her daughter doing a very honest -- 3 generations of amazing women talking about very real issues. 23 million people have watched that show. So in its demographic, which is under 35 women, that's the biggest talk show out there. And that's pretty cool, because it's on Watch and it's so nascent. And so we're going to continue to invest. We're going to see what happens, see what works. The core of what we want to do is make, not just get people to watch longer-term video, which we're happy to do. But it's really about making the experience social. So what's exciting about these shows and these opportunities is the engagement you have with your audience. People can watch some of them together if they want to, or even if you're not watching at the same time, the way people comment, the way people engage with the creators, we think, shows the path forward for video. The video itself is going to become more social, more interactive. And we're excited that we're doing something to grow those experiences.

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

Maybe the next show is to come. Dave. So on the -- shifting to the P&L a little bit, on the last call, you talked about 2019 total expense growth in the 40% to 50% range. And that's going to set us about a \$14 billion increase in total expenses at the midpoint. Talk to us just sort of about the investment priorities of where the dollars would be spent within that money. And how does that compare to last year, 2018 versus 2019? What are the investment priorities?

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

Yes, I think the investment priorities are really a flow-through of the same investment priorities we've had over the last year. You're going to see on the total expense side, flow-through from the big capital investments that we've made. So that's going to start to flow through in the P&L on the cost of revenue side of things. Then in addition, we're investing, as Sheryl talked about, in safety and security. That's a big multibillion-dollar investment. And we think that's important for the long-term sustainability of the business. And it's what we need to do to deliver on our mission of bringing the world closer together. So that's core. It's part of what we need to do to be successful and to drive value for the people who use the platform. Then we've got our innovation investment. So I would call out things like AR/VR. We're launching Oculus Quest this year. That's a bit more immersive AR -- sorry, VR experience. Portal, obviously, we launched in Q4 of last year so we'll have continued investment in that

in 2019. Then we're also doing other areas. And Sheryl talked about video. So that's another investment area. So when you kind of bring all those things together, we're - it's going to be a sizable investment year, 40% to 50% growth in total expenses. We would expect that, as we move in beyond that, we'll start to have expense growth that is -- starts to be more in line with revenue growth. But it remains to be seen. We're still early in planning out how future years are going to play out. But that's at least what we see at this point.

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

We have a lot of questions about the long-term operating margin profile of the business. Now you've previously talked about operating margins sort of trending toward the mid-30s over the next several years. When we sort of triangulate your revenue deceleration comments with that OpEx kind of get there this year or we're here, at least in our expectations, is that the right way to think about it? Or it's just something that we're sort of missing from the next several years instead of 2019?

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

No. I think that's -- I mean, I think we're certainly going to see the biggest impact to margins in 2019. So that would be our expectation as well. And again, it's the big investments that we're making and those different margin profiles in some of these other areas of growth, whether it'd be things like AR/VR, whether it be things like video. So that also is going to have an impact on the long-term structure.

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

Then CapEx 2018. CapEx grew 100%. And I think you're right now talking about sort of a 30%-ish overall step up in CapEx. What are the biggest drivers of CapEx this year? Then just talk to us about the way you think about sort of the long-term capital intensity of the business and even the potential for CapEx at some point to decline?

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

So we're not calling for that. So just to be clear. This year, it's a big data center investment year. So on that front, we're building to make sure that we've got the capacity to deliver the services. That's a very long-term investment horizon for data centers. So that's, call it, a 20; to 30-year depreciating asset. So we think it's much better to err on the side of getting those projects going and not find ourselves constrained from the capacity perspective. And so part of what we're doing is building additional headroom into the system to be able to have the flexibility to deliver against growth opportunities when we see them. We've been constrained in the past. And we think it's best from an operating perspective to make sure that we're doing some significant investments to be in a better place from a headroom perspective. So there's a cyclical element to the growth. But there's also ongoing, I would say, secular capital intensity drivers, too. A couple that I would call out, we're increasingly seeing growth come from Asia. So whereas four years ago, you had Asia growing. But we're able to serve that capacity sort of off-peak with the U.S. Now we're getting a lot of that growth without having to put necessarily capital in the ground. Now if you look at our top 3 growth countries for Facebook, it's India, Indonesia and the Philippines, which are all roughly on peak with each other. So

we're building capacity more for Asian demand. And so that has different ARPU characteristics and different capital intensity characteristics. Still attractive from an investment perspective. Then we're seeing additional opportunities from the machine learning perspective. And I think you'll probably see this across peers in the industry as well, which is being able to put more compute behind problems and getting ROI there. Advertising is the biggest opportunity for us there, which is just putting more compute behind advertising. And that has additional capital intensity. So I think you've got a couple fundamental capital intensity drivers and you also have a cyclical component. And those 2 things have sort of combined to give us our expectation for CapEx growth in 2019.

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

Then through all the CapEx and the investment, you still have about \$40 billion of cash on the books at the end of last year. You did authorize a new repurchase program authorization in December. Maybe just sort of talk us through capital allocation priorities and how you think about just returning more capital to shareholders in the next couple of years.

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

Well the focus really is on making sure we're making the investments to grow the business. So first and foremost is how do we make sure we've got the capital to grow. Secondly, we want to make sure that we have a strong balance sheet. We are in the business that is an advertising business that does have potential for risk in a macroeconomic climate that's less favorable. So we want to make sure that we're in a good place from a strong balance sheet perspective and also be able to take care - - take up -- be able to use capital strategically if we see opportunities there. So we want to I think have a very conservative point of view on all of those fronts. But we have had an opportunity, given the strength of the balance sheet and the margins of the business, to look at share repurchases. And I'd look at those in 2 ways. One is, we are ongoing issuing shares as part of our compensation program. So we want to offset that dilution with some amount of share repurchase. Then we see, opportunistically, opportunities to do more than that. And so we've been in the market from time to time. In the Fourth Quarter, we bought back \$3.5 billion worth of stock. And in the whole year, we bought back \$12.9 billion. And we've got a new \$9 billion authorization. And so that puts us in a position to be able to -- still be able to look at offsetting dilution as well as opportunistic going forward.

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

Sheryl, just to close, it was -- it's been a very news-filled year. There's a lot that's happened. I guess, I'd be curious to hear your thoughts now. Here we're heading into 2019, what aspect of the company do you think is still most misunderstood, either by the press, Wall Street analysts, analysts in the room, what aspect would you say that isn't really the way this company thinks about things or functions? And what are your 1 or 2 biggest priorities for '19 and '20 for the platform?

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

I don't know exactly what's most misunderstood. I think there's different understandings for different people. But I think our priorities are actually quite clear. And we've tried to be very explicit about those. Mark laid them out in the last earnings call. And there are 4 of them. And I guess understanding those priorities would be important no matter what people's prior understanding is. So the first is, we want to make progress on the social issues facing our company and our industry. We want to make sure fake news does not spread on Facebook. We want to make sure that hate is taken down as quickly as possible. We want to make sure we can protect elections. You never know what you don't know. But as far as we can tell, sitting here right now, the 2018 election was a totally different thing than 2016. In 2016, we didn't understand this new form of Russian interference. We missed it. We had no working relationships with government. I think everyone missed it. 2018, we had strong partnerships with Department of Homeland Security, the FBI, governments around the world. And we are able to find this kind of interference to take it down. So we're going to keep making those investments. There are elections happening around the world on all of these things every day. The second priority is, we want to build great experiences for people. So I think the reason people are still coming to Facebook is because it is a good experience. Most of the time for most people on Facebook, from the kind of happiest moments in my life to some of the saddest, Facebook has been a big part of that journey. And it's where I still remember it's my friend's birthday, it's where I get to see pictures of their kids. I'm a huge WhatsApp user. I really appreciate the ability to communicate one-on-one in an encrypted, safe way with people. It's how I communicate with my closest girlfriends now. And we're going to keep building great experiences. So the things we already do, like WhatsApp and like Facebook and Instagram. We think messaging is big, we think messaging is going to be more core. Then the further things out, like Dave talked about, VR and AR. If you've ever experienced it, I think it's in such a nascent stage and the opportunity for things to be more immersive, to be somewhere without being there -- being there is pretty exciting opportunity. The third bucket is we want to keep building our business and our partner businesses. And I mentioned there are tens of millions of small businesses on Facebook, 90 million. And we've now surveyed them over and over and over. And what they tell us is, in any one survey, which can go from a couple of hundred to a couple of thousand businesses, half of them are growing, hiring because of the growth they're experiencing on Facebook. So we believe very deeply in our business model. We believe targeted ads and privacy protection are better for people. And we believe they are democratizing for small business. And this is why literally, probably, millions of jobs are being created around the world in local communities. I closed out the year by going to my hometown doing our 50th Community Boost of the year within Miami where I grew up. And what I met there was business after business after business. It's delicious kind of pastry and things to tortillas to someone making hats. These are small companies that were started or growing almost entirely on Facebook and Instagram and hiring in local communities. So we're going to keep growing our business and growing businesses around the world. And the fourth I think goes through to the heart of your question, which is, we need to tell our story better. That - there has been harm done on Facebook, there are things we didn't see. We are working as hard as we can to protect against those harms and protect against the future harms we don't yet understand. We understand that's our responsibility. But in all that, I think sometimes people forget the good things that happen on Facebook. The times I got an e-mail yesterday from someone who a family member diagnosed

her own cancer on Facebook and saved her life. Pretty incredible stuff. And so we're working hard to prevent the bad. But also to let the good stories be told so that people can continue building the community on Facebook. In a world that people can feel alone and people are increasingly I think looking within their own borders, I think the connections we allow for people to have real community, to have real friendships, to understand and see people across borders, pretty valuable stuff. So we're going to work really hard to prevent the bad and to make sure people still see and understand and talk about the good. I think we need to do a much better job there.

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

Great. With that, all right, Sheryl and Dave, thank you so much.

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

Thank you.

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

Thanks, Brian.

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