

Operator

Good afternoon. My name is Jay, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Facebook First Quarter 2013 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you very much.

Ms. Deborah Crawford, Facebook's Director of Investor Relations, you may begin.

Deborah Crawford

Thank you. Good afternoon, and welcome to Facebook's first quarter and earnings conference call. Joining me today to talk about our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and David Ebersman, CFO.

Before we get started, I'd like to take this opportunity to remind you that during the course of this call, we'll make forward-looking statements regarding future events and the future financial performance of the Company. We caution you to consider the important risk factors that could cause actual results to differ materially from those in the forward-looking statements in the press release and this conference call. These risk factors are described in our press release and are more fully detailed under the caption Risk Factors in our annual report on Form 10-K filed with the SEC on February 1, 2013.

In addition, please note that the date of this conference call is May 2, 2013 and any forward-looking statements that we make today are based on assumptions as of this day. We undertake no obligation to update these statements as a result of new information or future events. During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release.

This call is being broadcast on the Internet and is available on the Investor Relations section of the Facebook website at investor.fb.com. A rebroadcast of the call will be available after 6 p.m. Pacific Time today. The earnings press release and an accompanying investor presentation are also available on our website. After management's remarks, we will host a Q&A session.

And now, I'd like to turn the call over to Mark.

Mark Zuckerberg

Thanks Deborah and thanks everyone for joining us today. We got off to a good start this year with strong engagements and growth across the community, several major new product announcements and some good financial results. Sometimes it surprises me that our community can still grow so quickly beyond a billion active members. More than 100 million new monthly active members have joined in the last half of the year, and now there are more than 650 million people who use Facebook every day. It's more than 60% of our community every day. We continue to see high levels of engagement globally across our whole community. We take our stewardship of this very seriously. We want to make sure we give every person in the world the power to share and we are proud of these results.

Overall, there are three main parts of our strategy. Build the best mobile product, build a platform with new services that leverage the social graph, and build a strong monetization engine. I am going to use my time here with you today to give my assessment of how I think we are doing in each of these areas. Let's start with mobile. One of the products I am most excited about is Facebook Home. It's a family of apps that you can install in your Android phone to make the whole experience of your phone much more personal and about people and not apps.

We know that people spend an average of 20% or more of their time in apps on Facebook. Staying up to date with the people they care about, are doing. We use to open the Facebook app maybe 10 to 15 times per day. But we probably check our phones over a hundred times a day. So with Home, you can see fresh news and content from people and topics you care about every time you turn on your screen. It really brings your phone to life and provides with a completely new experience.

This product is still very early and this is just a first release in a long journey. We are planning on iterating quickly and tuning things based on feedback. We haven't really started encouraging people to install it from within app yet, and it's only available on a few phones. But over the next few months we hope to push this out much more broadly and get this in the hands of a lot more people. We are excited about Home because we think it's a great product.

But Home is also an important milestone for our company. This is completely new kind of mobile experience based on people, not apps. And we think this is how phones and computers should work. I am looking forward to sharing more with you on the experiences that are brought on mobile that we are building over the rest of this year. Now beyond Home, I am really proud of how Instagram is doing. Kevin and his team have made amazing progress since last April.

When we agreed to acquire them, the Instagram community had 22 million people actively using their service every month. And today over 100 million people are using Instagram each month. The Instagram community is growing even faster than the Facebook community did when it was this size. And the two communities complement each other to create some great experiences where you can capture any moment in your life and easily share across all the communities you care about.

Now I would like to talk about platform and building new services using a social graph. A couple of months ago we announced a new, richer and simpler design for our News Feed that's more visual and engaging for all the content that you might want to (inaudible). From new stories from the New York Times to pins from Pinterest, or activities from a game that you played. This new design opens up a nicer canvas for content for every developer and publisher out there. And we think it's going to create a lot more opportunities for engagement.

Early feedback has been positive on the versions we have rolled out on iPhone, iPad and desktop web, and we are looking forward to rolling this out more widely since. For our development platform, we have had a long roadmap to build the tools for iOS and Android to make building social app and advertising with Facebook as easy on mobile as it is on desktop web. We conceded this transition by bringing open bringing Open Graph to mobile this month. And our efforts are paying off with now 81 of the top 100 growth in iOS apps and 70 of the top 100 Android apps integrating with Facebook and continuing to grow.

One of the developments that's been interesting is seeing how big of an opportunity mobile apps can be for Facebook. Because of the rules Apple and Google have in this space with their app stores, it wasn't this clear earlier on what kind of a role Facebook can play. But I think it's clear now that we can create a lot of value for developers by providing a platform for identity and distribution. We are starting to see real revenue through selling mobile apps themselves. We just announced the acquisition of Parse, a platform of service provider for mobile apps as part of our strategy to provide greater support for developers. Both of these products make it easier for developers to create and grow their apps and this could be the start of something much bigger.

Now I want to talk a bit about monetization. I just mentioned mobile apps install ads, which are growing quite well and it becomes one of our most important new ad product. This supports our hypothesis that Facebook should help you discover new apps and content that you may want to use. And even it is not every recommendation we make is one that you take. I

think this is still starting to provide some really good content for our community and I guess into the business opportunity here.

This type of ads makes sense to me on mobile. On desktop web, most ads encourage you to visit a new website. On mobile, it makes sense that most ads encourage you to visit apps instead. And in order to visit apps you first need to install. So these ads are the obvious first step. On mobile, the set of companies that produce apps is much broader than what you might think of as traditional developer. Every major brand, company or service wants to build apps as a storefront or interface for their customers and each of these companies wants to reach their customers to encourage them to install their apps. This market is already big and I expect it to continue to grow quickly.

One more thing that's important to reinforce here is that we continue to measure people's satisfaction with all the content they see on Facebook, including ads. We haven't seen any meaningful impact on the satisfaction and we're continuing to watch this very closely. This is important to us as stewards of this community. We aspire to have ads -- to show ads that improve the content experience over time. If we continue making progress on this then one day we can get there.

So that's my update on our strategy for this quarter. We've already accomplished a lot so far this year. We've seen strong growth in engagement across our whole community, several major product announcements and good financial results. We think the products like Home and Graph Search are big opportunities to deliver some unique and important services to the world that we're positioned to do better than anyone else. But these services are also big, long term investments. So I want to be clear upfront that we're making these big investments because I think these are important areas for us to focus on.

Now finally, I want to take a moment to thank everyone who works at Facebook and everyone who makes this community great. All of you are contributing in building these new experiences and helping more than a billion people stay connected. So thank you all and thanks to everyone on this call for being with us today. I look forward to having more to share and report on next quarter.

And now I'd like to turn the call over to Sheryl.

Sheryl Sandberg

Thanks Mark. As Mark said, we had a very solid start to this year and we're excited about the opportunities ahead of us. Our first quarter total revenue was \$1.458 billion and total advertising revenue grew to \$1.245 billion. This means that ad revenue was up 43% year over year, faster growth than

we've had in any quarter in 2012. We believe that this shows that our ad products innovations are helping marketers to reach customers effectively. Our growth is particularly strong from new small and medium sized marketers, direct response marketers and app developers.

I will use my time with you today to update you on the progress we've made in our three strategic ads priorities, mobile, measurements and product innovation. First mobile. As Mark just said, having billions of people carry social devices in their pockets, checking them multiple times a day, often checking Facebook is a huge opportunity for us. A recent comScore report showed that in the U.S, people spend more time on Facebook than on any other app on their smartphones. The opportunity for us to connect people to each other and to marketers has never been greater. We are uniquely positioned to offer marketers massive reach on a daily basis.

In Q1, mobile was approximately 30% of our ad revenue, up from about 23% in Q4. Importantly, we're seeing strong growth in our mobile ads business all around the world, particularly in Asia. As an example, our mobile app install adds performed very well this quarter. We offer developers unique opportunities to drive downloads of their mobile apps as Mark talked about.

During the quarter, 3,800 developers used these ads to drive nearly 25 million downloads. Of the top 100 grossing apps from both iOS and Android in the last week of Q1, about 40% of them used our mobile app install ads. In gaming, travel, e-commerce and financial service industry, the early indicators are that our cost per install are highly competitive. In one example, British Telecom provider O2 used Facebook as its only digital marketing channel to promote its new music app, O2 Tracks. In just three days, they reached 9 million people and got to sixth place in iOS apps in music.

Second, I want to discuss our progress in measurements. One of the challenges we face is helping marketers understand the value of our ads. This has been a major focus for us over the past several quarters. We're partnering closely with our clients to help them understand how their campaigns are performing and this measurement work also helps them gain a better understanding of their customers which then makes their future campaigns even better. In the last nine months, we've conducted campaign effectiveness studies on over 100 campaigns across CPG, auto, retail and telco. One of these studies was Bud Light. Bud Light ran Page Post ads to its 5.8 million fans on Facebook and these ads appeared in all of our placements, including mobile newsfeeds. We worked with DataLogix and found that these ads reached 20% of U.S. households and had 3.3% sales lift, yielding a six times return on ad spend. A result, we are very proud of

and Bud Light is really excited about. We plan to continue to invest heavily in (inaudible) with our clients throughout the upcoming year. We are also really excited about our acquisition of Atlas, which closed just last week and I was able to welcome the team to Facebook earlier today.

Atlas is a really important part of continuing to develop our measurement capabilities. For the past decade, digital marketers have primarily measured success by focusing only on clicks. But this over simplifies how people make purchase decisions, both offline and online because it ignores everything people do and see before they do that last press. Smart marketers are looking for a better way to value all of the impressions that they buy and engage thus leading up to purchase.

Multiple industry-wide spendings have validated this multi-click attribution approach. For offline sales, both Nielsen and comScore have repeatedly shown that clicks are not a good predictor of sales lift. For online sales, Aggregate Knowledge found in an analysis of more than 500 online campaigns that when clients moved from allocating their advertising spend using last touch attribution to using multi-touch attribution, they saw a 33% increase in actions, conversions in sales. In a study of campaigns from Q4 2012, they found that when measured holistically, costs per acquisition on Facebook is 68% less than other online channels. The DataLogix study validates this finding as well, demonstrating that on average 99% of people who saw Facebook ads and then bought a product in a store never clicked on an ad at all.

We believe the Atlas platform will help us demonstrate even more clearly the connection between ad impressions and purchases. We could help marketers measure the effectiveness of their ad impressions better not just on Facebook, but across the entire internet. This means we can take the advancements we have made in measurements on Facebook, including our integrations with Nielsen and Datalogix, and expand them to a much larger audience and to many more purchases.

Third, I would like to highlight product innovation in ads. Over the last year we have invested heavily in product innovation and I am excited about what we have accomplished at a relatively short period of time. As always, our top focus is on the results we generate for the marketers, and we are pleased to see the ROI we can provide as well as providing a good experience for our users. We continue to innovate new targeting capability that make it easier for businesses of all sizes to reach the right people, both on desktop and on mobile.

In Q1, we gained traction with our Custom Audiences product. This product allows marketers to reach their target audiences based on their own

customer databases or databases maintained by third party. For example, a marketer can target ads to customer who have not returned to their store in the past month but do have made purchases before. This product improves their targeting and generates higher ROI for the marketers and a better ad experience for our users. We are really pleased with the adoption of this product.

In Q1, more than twice as many marketers used Custom Audiences than in Q4, including, 23 of the Ad Age 100 top global marketers and many other important clients. Companies from Hotels.com to Intuit, to Virgin America are seeing success with this product. In April, we launched another powerful targeted product, Partner Categories. This enables marketers to use third party data from Acxiom, Epsilon and other data providers to target their ads. For example, we can deliver ads to the 12 million people in the U.S. who are likely to purchase a car in the next six months, or to the 19 million people who are active purchasers of hair care products, households that purchase hair care products at multiples with other households, or to the 23 million people in the U.S. who are heavy soda drinkers, we apologize, Mayor Bloomberg.

We have also seen more customers begin to use FBX. And we recently launched FBX in News Feed on desktop. We think this will continue to drive the advertiser's options, given that we generally see higher engagement for ads in News Feed. In the last six months of 2012, as one example, re-targeting platform AdRoll saw a 70% lower cost per click on Facebook and on traditional web targeting. FBX was so successful for them that by the beginning of Q1, AdRoll reallocated 63% of their total impressions to Facebook.

Overall, we feel really good about our first quarter results. We've made tremendous strides in mobile. We continue to improve our measurement capabilities, most notably with our acquisition of Atlas and we continue to innovate on our key advertising products and tools. We're still in the early days of developing our adds business and huge opportunities ahead of us. And we thank all of you for your continued interest in our business.

Thank you. Now I'll turn it over to David.

David Ebersman

Thanks, Sheryl, and good afternoon, everyone. I'd like to share with you the progress we made in Q1 against our key financial objectives to increase revenue, to invest aggressively to drive our future growth and to position the company to maximize long term returns for our investors. In March on average 665 million people access Facebook each day, up 26% from last

year and representing 60% of the 1.11 billion people who used Facebook during the month.

Consistent with last quarter, mobile continues to drive growth and visitation and engagement. 751 million people accessed Facebook from mobile devices in March, up 54% from last year. These numbers do not include Instagram, which continues to grow rapidly as Mark mentioned.

Turning to revenue, in Q1 total revenue was up 38% and ad revenue was up 43% compared to last year, driven by the strong performance of newsfeed ads. Exchange rates had no meaningful impact on our revenue growth rates. Ad impressions were up 39% and average price per ad was up 3% compared to last year. The product changes we made and discussed last quarter, primarily lowering the price floor in our option had a significant impact on the price and volume year over year comparisons. In the United States and Canada, where the price floor changes had a smaller effect, average price per ad increased over 25% relative to Q1 of last year, driven by a higher engagement and performance of News feed ads.

Mobile ad revenue came in at approximately 30% of ad revenue this quarter versus zero last year and desktop ad revenue in Q1 was essentially flat with last year. As we've discussed in the past, most of our advertising clients do not specify that their Facebook ads be shown on desktop only or on mobile only, or rather they put their ads into our system and allow us to show the ads on whatever device where the ads will perform best. Because of this, the flat desktop revenue does not reflect a particular trend relative to desktop demand so much as it reflects the fact that more of our valuable ad inventory is being shown on mobile because that's where people are spending increasing amounts of time and because the mobile ads perform well.

We believe our aggregate ad revenue number remains the most important reflection of our performance in terms of increasing overall advertising demand. And the most important ways for us to continue to increase ad revenue are to grow users and engagements and to build advertising products and measurement tools that increase demand from advertisers of all types around the world.

Total payments and other fees revenues was \$213 million in Q1, an increase of 15% versus last year. payments revenues from games was up 12%, though we believe 6% represents the best apples to apples comparison in terms of the increase for payments from games if we adjust for items such as the Q4 change in revenue recognition timing. We're pleased that Q1 represented our largest three months quarter of games revenue to date despite a 37% drop in year over year payments volume from our largest

developers as our other developers increased their payments volumes by almost 60% and we saw a record number of people playing games on Facebook.

Games revenue in Q1 benefited from the growth of games launched over the past year and also from our efforts to increase games distribution, usage and payments conversion. We believe Facebook continues to offer a compelling platform for developers to build great games and businesses and we will continue to invest in this area. Overall, ARPU increased 12% to \$1.35 for the quarter, including a 21% increase in the United States and Canada and double digit gains in the other major regions as well.

Shifting now to expenses, in Q1 our total GAAP expenses were \$1.08 billion. Excluding stock compensation, total expenses increased 56% to \$895 million, driven primarily by headcount and infrastructure spend to support our growth. We continue to expect that our total non-GAAP expenses, including cost of revenue but excluding stock comp, will likely grow in the neighborhood of 50% in 2013 consistent with what we said last quarter as we continue to invest in products to grow engagements and monetization.

Our Q1 GAAP operating income was \$373 million, representing a 26% operating margin. Excluding stock comp, our non-GAAP operating income was \$563 million, representing a 39% non-GAAP operating margin. Our GAAP tax rate for Q1 was 38% and benefitted significantly from the realization of the onetime \$94 million R&D tax credit in the quarter. Our Q1 non-GAAP tax rate was 43% and we expect that our full year non-GAAP tax rate will be similar to Q1.

GAAP net income and EPS for the quarter were \$219 million or \$0.09 per share and non-GAAP net income and EPS were \$312 million or \$0.12 per share. We spent \$327 million on CapEx in Q1 and we continue to expect 2013 CapEx to be in the neighborhood of \$1.8 billion as we invest in servers and data centers to rapidly and reliably provide our products to people around the world.

In Q1, similar to Q4, upon the vesting of employee RSUs, we withheld shares and paid the associated income taxes for our employees, which resulted in an outcome that's functionally very similar to Facebook having repurchased approximately \$400 million worth of shares in Q1. We ended Q1 with \$9.5 billion in cash and investments. Overall, we believe that 2013 is off to a good start. We are pleased with our financial performance as well as our progress and product development. We are continuing to invest aggressively in new products that we think will drive long-term engagement as well as product and tools to grow our revenues and increase returns for the advertisers and developers working with us.

And we are excited about the opportunity ahead of us to build out the network of people using Facebook and to bring our unique asset in terms of reach, engagement, and identity to our large and important market opportunities. Now let's open the call for questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Heather Bellini with Goldman Sachs. Your line is open.

Heather Bellini - Goldman Sachs

Mark, I was wondering, you shared with us the continued success of mobile install ads, I was wondering if you could share with us the other monetization initiative that you have that you are most excited about for 2013. And then my follow up for David would be, if you can share with us qualitatively how CPM trended in the various regions on a year-over-year basis.

Sheryl Sandberg

I will take the first question. In terms of our ads priorities, they are what I mentioned, mobile, measurements and product innovation. We are particularly focused on improving the quality of our ads because we think that is the best way to have a great experience for users on Facebook as well as for marketers. I think if you look at the success of Custom Audiences, Partner Categories, FBX, what you see in that are products all move us towards better targeting, more relevance, better experience for users and for our marketers. And we are going to continue to invest very heavily in making the ad experiences as high return as they can for everyone involved.

Mark Zuckerberg

Yes. I will just emphasize the same point. I mean the things I am most excited about are things that are driving quality. I mean the two big levers for the business are, a, obviously a lot of people spend a lot of time using Facebook to stay connected with all the people around them. And second, that is an opportunity to advertise. But I actually think over the long term, the thing that's going to drive the business to most is getting the ads to be very high quality. Personalize, good content in there. And a lot of the things that we are doing are aligned with that. So App install, a lot of that stuff is just good content that people are interested and there is no great way to find app stores today to discover a lot of apps on mobile devices.

Similarly, I talked about the News Feed redesign that we are rolling out. And the content in there is much more visual. And we have always had the policy that the advertising content will display in exactly the same way that the consumer content display is. And making it so that people can share a much more visual content. Making that naturally advertisements can now have the same kind of compelling creative as well, which I think will increase the quality of that and overtime increase the effectiveness as well.

David Ebersman

So Heather, in terms of your question about CPMs. Ads revenue grew well across all the geographic regions that we report on. I mentioned the U.S. and Canada growth in CPMs. We saw a similar number, a little bit lower but similar in Asia. For Europe and rest of the world the numbers were much lower. A little a bit above zero in the case of Europe, a little bit below in the case of the rest of the world. The interesting question around this is, what those numbers might have looked like if we hadn't made changes in the option dynamics and, such as the price floor and obviously we can't answer that question quantitatively because we don't have the data. But we feel pretty strongly and pretty confident that prices would have increased substantially more in all of the regions if we hadn't made those changes.

Operator

Your next question comes from Ross Sandler with Deutsche Bank. Your line is open.

Ross Sandler - Deutsche Bank Securities Inc.

Just two questions. Engagement first was up across most of the geographies. We assume that's primarily driven by mobile, but can you talk about anything else that's driving up engagement. And then just a follow up on the geographies. So it looked like the U.S. had a normal seasonal downtick sequentially whereas international most of those regions held up sequentially. So can you talk about the difference between sell-through rate in the U.S. in newsfeed versus some of those international markets?

David Ebersman

In terms of growth and engagement geographically, I think you can see from the numbers that growth was strong across all the areas of the world. We continue to add a lot of users in places like India and Brazil. And in engagement trends I think were similarly strong throughout and mobile is clearly a big part of that equation and been very helpful to us in terms of getting more users, more daily users and more engagement from those users. In terms of revenue by geography, I don't know that there's a lot to

add to what the numbers I've already said. Europe looks good in the first quarter after being a little bit softer towards the end of last year and we continue to grow well in Asia and the rest of the world. So I think just pretty consistent performance there.

Operator

The next question comes from Scott Devitt with Morgan Stanley. Your line is open.

Jordan Monahan - Morgan Stanley

It's Jordan Monahan on for Scott. Just two quick questions. The first is, one of your competitors recently said something to the effect of if you're building for mobile you're building for today but not tomorrow, suggesting that tomorrow is a multi-screen world with all sorts of personalized devices. And I'm just curious, what opportunities do you see when you think about tomorrow? Would you agree that screen fragmentation will continue to increase and does moving ads towards newsfeed and away from right hand side help you in that environment? And then the second question is just about engagement. Engagement continue to improve despite more ads which validates your strategy. So every time you launch a new product people get concerned that engagement may actually tick down, but it seems to do the opposite. So are there other ad formats that you're thinking about that are likely to be complimentary to engagement?

Mark Zuckerberg

All right, I'll start. I think that the trend of more different form factors I think is somewhat orthogonal from the main trend that we see which is just people sharing more in different ways. And people want to stay connected with their friends and family and all these different folks in their lives and they're going to use whatever technology they have to enable that, whether that's desktop computers or laptops or phones or tablets or glasses, like whatever the products are. And I think that there's going to be good ways for people to be able to consume a social content on all of those. So I think the big question for us is just which platforms do we see growing the quickest? We're not tooled up as a company right now to make 10 huge investments like that at a time. But we can do a couple. Certainly in tablets are growing very quickly and I think that's going to be increasingly important. But I think that consuming social content and staying connected with people is such a fundamental human need that that's going to be important on all of these.

And getting ads in newsfeed was a valuable step in making it so that everywhere where someone is consuming content from Facebook, the

business model goes along with that naturally. And those were the early challenges that we had with mobile with ad for the first six or seven years of Facebook we're just this right hand column and nothing trends like in mobile. But it was fairly easy with some amount of work just to make that transition. We're there now and now I think whatever the form factor is going forward we'll be able to deliver advertising content in a proportion that we think is good along with consumer content. For the sentiment stuff, I think what we're seeing is really positive. It's better than expectations and we assumed that sentiment and satisfaction might drop some amount. We continue to watch this really carefully because there's no guarantee that it won't in the future. But right now what we have seen has made us more confident that we can do more with advertising over time and can ramp that up. Our strategy isn't to have like a ton of different ad units. We really want to make it so that we are delivering these end-to-end solutions for our customers and only have a small number of simple things, make it easier for advertisers to work with us. We want to deliver that and we are kind of underway on this long road map to execute that.

Operator

The next question comes from Anthony Diclemente with Barclays. Your line is open.

Anthony Diclemente - Barclays

I have one for Sheryl and one for David. Sheryl, you talked about Atlas and the measurement capabilities there. And you phrased it in terms of click-based ads and I am wondering is there also an opportunity for Atlas to improve or standardize measurement for impression based ads. And I guess the spirit of the question more generally, can you just talk about or update us on the potential for impression based ads in terms of increasing as a percentage of the mix versus performance based ads on Facebook. And then, David, question would be, a little bit of a decel in the rate of growth of ARPU in the U.S. I am wondering if there are other things you can call out in the first quarter, be it dollars from large events, TV events like the Super Bowl or other things, other than seasonality. Or maybe you can quantify or comment on the seasonality factor in the U.S. and Canada for the 1Q?

Sheryl Sandberg

So on Atlas you are exactly right. Our focus with Atlas is on impression based ads. And the idea is that, you know historically a lot of ads online which were more based on search, the attribution was always that last click. And as people have looked more holistically at all the ad spending they are doing, what they find is that it's not just the last click that matters but it's all

the impressions leading up to that click. Importantly, we also drive sales offline. And offline people aren't clicking through the purchase at all but they are actually walking into a store. So in some sense there is no last click.

And so our focus with Atlas is to take that technology and enable us to improve our ability to connect ad impressions to purchase behavior both offline and online, and not just on clicks but across different ad purchases people do. So that's exactly why we made that purchase.

David Ebersman

In terms of ARPU in the U.S. and Canada was up 21% versus last year, so continuing to make good progress there. I really don't have anything unique to say about seasonality in 2013. We see it from Q4 to Q1 across the years that we have been in an advertising business. And I am sure there are unique things that impact each year but there is nothing that we are aware of that was particularly important in 2013 in that regard.

Operator

The next question comes from Jordan Rohan with Stifel. Your line is open.

Jordan Rohan - Stifel, Nicolaus & Company

I am curious about how you address markets where it's a little bit harder to sell advertising. Specifically, if I'm calculating correctly, 41% of monthly active users are in the U.S., Canada and Europe, as you defined those geographies in your slides, and that's 74% of the ad revenues. How can the other geographies of the world step up to be an even more meaningful percentage of total revenue? Do you have to add a lot of heads, a lot of sales infrastructure and technology infrastructure that you don't currently have? And from that perspective, did you meet your objectives in terms of hiring and expenses, because I know how hard it is to support a business as global as Facebook. Thank you.

Sheryl Sandberg

So, I'm very encouraged about our opportunity to sell ads all over the world. One thing I've learnt in my time selling ads on the internet, which is going over a decade now, is that markets that you don't expect to have ad markets develop faster than you would think. So if you were to ask me seven years ago what Turkey's ad market would look like, I would not have predicted it as today. So I'm increasingly encouraged by small businesses around the world and large businesses, and their adoption of the technology. I think with small businesses we have an actually really deep competitive advantage, which is that people all around the world use Facebook. So when

small businesses who are historically way too busy to spend a lot of time using technologies, start to use the Facebook platform, they are using something they already use as users.

So once you have a timeline or a profile, setting up a page is not a very big ask because you understand it and you are doing it anyway. And that's why we think with almost no direct effort we have 16 million small businesses actively using Facebook pages. I think one of the things we have done well over the past number of quarters is build out simplified ad products like Promoted Posts, where it's easy for those people who are using pages and it happens all over the world typically on the advertisers and we are increasingly optimistic that we can do more and more of that.

David Ebersman

In terms of hiring, I think everything has gone quite well and as we have discussed 2013 is the year where we're investing for future growth, and I think in the first quarter both in terms of hiring and building out our infrastructure we are on track with where we want to be,

Operator

Our next question comes from Youssef Squali with Cantor Fitzgerald. Your line is open.

Youssef Squali - Cantor Fitzgerald

Two questions, maybe one for Sheryl and one for Mark. On ad pricing can you maybe just talk about CPMs for ads in the newsfeed versus ads on the right hand rail? Can you give us maybe just an idea so the magnitude of the difference between the two was that a big driver for that 21% increase? Then on video advertising I was just wondering, what's the strategy to bring video advertising to Facebook and both in newsfeed and to desktop initially and then eventually on mobile assuming that there's enough bandwidth for that? Thanks.

David Ebersman

This is David; I'll take the first one which is about CPM. So the ads that we show in newsfeed are displayed more prominently and they are more in the flow of the user's attention. So as you would imagine, we get more engagement with those ads and they end up commanding a much higher average price per ad as you would expect.

Sheryl Sandberg

I'll take the second part. So video is a really exciting area because we have leveraged our scale and engagement and our ability to provide relevant ads. We have a video product out today. Advertisers can embed a video in their page post, and we're seeing really strong results. I think both because of that and because of marketers' inherent liking video as a format, we continue to explore new things as well, but we don't have anything to announce today.

Operator

Our next question comes from Justin Post with Bank of America Merrill Lynch. Your line is open.

Justin Post - Bank of America Merrill Lynch

I guess two questions, first on ad formats. Sheryl, do you think you've really optimized the ad formats, especially on PC or is there a lot of room you can do to get better performance from that? And then secondly, maybe you could just give us a business update on Instagram, maybe you could compare where they are to where Facebook was when you turned on ads or any thoughts on how you could monetize that platform maybe far down the road?

Sheryl Sandberg

On the first -- I think there's a lot of room to improve our ads. I don't know whether that'll take the format of different formats. I think more of it will be in terms of quality because I think we feel pretty good about our formats. But one of the main pushes we had is to make each ad a better experience for users, content in those ads, which is as good as the content they'll see from a friend or anything else on the site, as well as make those higher return for marketers and those two go hand in hand. I think the place you will see the most from us is more around targeting, around ability to take the formats we have and make the ads better within those formats. That's certainly our focus now. But as our site evolves and our product evolves, we never rule out changing the format as well.

Mark Zuckerberg

Yes, on Instagram they're really doing well and growing really quickly. and I think that is the right for them and they have this opportunity to capture and basically build off this huge community. And I think that that should be a 100% of the focus right now. I am really optimistic about the business opportunity there too. You already have a lot of brands and folks who advertise with Facebook putting content in Instagram, getting huge engagement rates. So people are coming to us and asking for ways to make

that even richer and it's something that we're thinking about. But right now I think that -- I'm just really product of the team and excited about how quickly they're growing. I mentioned this in my comments early on, but they're growing a lot faster now and we're faster to get to 100 million than Facebook even was.

Operator

Your next question comes from Gene Munster with Piper Jaffray. Your line is open.

Gene Munster - Piper Jaffray

You've seen some acceleration of revenue over the last three quarters and can you just give us some guidelines in terms of should we continue to see that accelerate? And if not, at some point in the back half of this year or early next year based on some of the investments in new products, could we see another inflection point in growth? Thank you.

David Ebersman

I think we're still in the really early days of what we're doing and that's particularly true in mobile. A year ago, we didn't have any mobile ad revenue and now it's 30% of our ad revenue. So this is great. We're really pleased with the progress and we still believe that mobile has the opportunity to be huge for us if we can execute well. We've got a really large mobile user base. They are very engaged and spend a lot of time with us. We have an ad format that works on mobile and we have identity so that we can put the right ads in front of the right people. So, I think the future for us is I think much more interesting than trying to project it from any particular quarter at this point, just because we've got a lot less to do. And, obviously, we will continue to try and develop tools to enable us to monetize our advertising better and potentially in different ways as well. But the big opportunity that's right in front of us is trying to make the mobile advertising products higher quality and more relevant over time.

Operator

Your next question comes from Ben Schachter with Macquarie. Your line is open.

Ben Schachter - Macquarie

A couple of issues for Mark. I was wondering, first, if you could talk about the platform strategy and maybe give some specific examples of third parties that have really been successful. And in general, what are the

lessons that you've learned around the platform strategy, how it's evolved? And then secondly, just around the evolution of Graph Search, any lessons from the launch, positive or negative?

Mark Zuckerberg

Sure. I mean one thing that I think has actually gone well with the platform recently is the gaming ecosystem. I mean David was talking about this earlier, but with the exception of our largest partner, Zynga, whose growth hasn't been as awesome as everyone would hope, the rest of the community is actually growing quite well and is quite healthy. So, we're pretty happy with that and it's a pretty diverse group. I mentioned in my comments at the beginning, I mean we have as many as 81 of the top 100 top grossing iOS apps and 70 of the top grossing Android apps that are connected in with Facebook. So we're getting good coverage, right. And that's all has been the vision, it's making it so that any apps and experience that you have can be social. So that's working well.

Also we really want to be a source that developers can come to for distribution and make it such that they can come to Facebook and spread their apps. People have always had good tools to do it organically, but recently the App Install ad product has been another tool in developers' arsenal in order to do that and that's showing some real traction. So, I'm pretty excited about that as well. Graph Search was your other question. And the strategy around it and kind of where we are in rolling out is, we developed it over a period of time at the company and we knew that in order to get it to be really good we had to get some real world data. So we rolled it out to just a small percent of people in order to be able to tune the ranking and all that. We're getting into a state where we are really happy with it before we roll it out to everyone. But we're really optimistic that that will happen over the coming months.

So, I'm pretty excited about that. The people who use it, we've gotten very positive feedback from it and I think it's going to be a very big opportunity. But the launch wasn't this point where we expected a ton of people to start using it. We've gated who can use it quite aggressively in order to just make sure that we get the data that we need and the real rollout will hopefully start pretty soon.

Operator

The next question comes from Mark Mahaney with RBC. Your line is open.

Mark Mahaney - RBC Capital Markets

I was wondering if you could talk about engagement per cohort. There is an urban myth that those under 25 are disengaging from Facebook. It's hard for us to see that in obviously the day that you report, but you would know that. Is the mobile engagement, is that offsetting that? Could you talk about that engagement amongst younger cohorts? And then secondly, you talked about advertising on mobile devices performing well. Could you actually make the statement as to whether it performs as well as desktop ads do for advertisers on Facebook, similar to, sometimes great or sometimes less? Could you compare those two? Thank you.

David Ebersman

Sure. I guess I'd start by saying we remain really pleased with the high level of engagement on Facebook by people of all ages around the world. You asked about people under 25, we continue to have really high penetration rates among that age group, both in the U.S. and globally. And the younger users remain among the most active and engaged users that we have on Facebook. And then in addition, younger users are extremely active users of Instagram as well. So that's great and makes our position even stronger.

I think, from our standpoint, the urban legend you referenced, sort of flows more often than not from surveys people have done of younger users that indicate that they're using other social services. And we take this feedback seriously but our sense is that much of the concern stems from the assumption that this is a zero sum game and that's not how we see it. We think the overall amount of time spent on services that enable you to connect and share is growing and will continue to grow, because these kinds of services are really engaging and good. And it's great for us to be the leader in a market that's expanding rapidly with the foundation we have with both Facebook and Instagram and I guess the challenge for us is to just continue building great products that appeal to users of all ages. Your second question about the engagement levels are the performance of mobile ads, I think it's fair to say that newsfeed ads on both mobile and desktop both perform extremely well and we're pleased with both formats.

Operator

The next question comes from Ken Sena with Evercore Partners. Your line is open.

Kenneth Sena - Evercore Partners

I was just hoping that you could go back to Atlas for a second and maybe give us a sense of maybe the run rate quarter-on-quarter. And is it correct to see Atlas is kind of an avenue into monetizing potential inventory off of

Facebook and how do Home and maybe your mobile Open Graph tie into that strategy. Thank you.

Sheryl Sandberg

Our main focus with Atlas is our own measurement, that being able to measure Facebook ads all the way through to purchase and then compare those on an apples to apples play with other ad purchases you make not on Facebook is really important to drive marketer engagement with us and that's our focus. We have no plans for launching that network. We also don't break out -- we're not breaking out the revenues from Atlas.

David Ebersman

And it's small. So Atlas is -- we didn't buy Atlas for the run rate of its revenues, but because we feel like it's a tool that can help us to grow our own business.

Operator

The next question comes from Douglas Anmuth with JPMorgan. Your line is open.

Douglas Anmuth - JPMorgan

Sheryl, you talked about having strong traction with SMBs and also in direct response and app developers and then also about Atlas and attribution. But can you help us understand the biggest hurdles that you have right now with big marketers? And then secondly, David, if you could help us understand the percentage of mobile ads revenue that's coming from mobile app Install ads?

Sheryl Sandberg

There are lots of types of big marketers. There are big marketers out there who are direct marketers. There are also big marketers who are brand marketers. I think the question probably is about the brand so that's how I'll answer it, even though it's worth noting that there are big advertisers across the spectrum of different type of ad buys. As I've said before, the thing about brand advertisers is that they got very used to TV and they got very used to search and we are a third thing. And we will win that business client by client, CMO by CMO. It's something I personally spend a lot of time on and I think we have a great team in the field again. With some of the big brand advertisers, we have been working with them for years and years. A lot of the data and measurement you hear us talking about are studies we've done with them based on campaigns that we've run with. And I think we

have a lot of belief at the top and in many of them we are in the process of going through their companies and getting that same commitment to buy.

So we'll have a CMO who has seen the value, we've proven the value and really wants the company to come along. And now we are in the process of working brand by brand, region by region to get that same buy-in lower in the organization, which actually takes more time not surprisingly. With other brand marketers, they are just in a testing phase and they really haven't done enough with us so that we can even do the studies to prove the value. And so the good news with us is we're engaged with all 100, Ad Age 100. So everyone is buying with us on an annual basis and we're working client by client to bring them along that spectrum. The good news is I think we're increasingly proving that we can return on ad spend in different parts of the purchase funnel.

So to share one recent example, MGM Resorts have used a different suite of Facebook products to address different customers at different parts of the purchase funnel. They used offers to acquire new customers and they saw a three times return on ad spend. Then they used FBX to retarget people who were in their booking process and dropped out and that gave them a 15 times return on ad spend. And then for past guests who had completed a purchase but hadn't come back, they used custom audiences to target them to return and they got a five times return. And I think it's experiences like that where we show the breadth of what we can do that really move us forward with the brand spenders.

David Ebersman

You asked about mobile app install ads. So we launched that product I think at the beginning of the fourth quarter more broadly. So it's early in its development, but really doing quite well. And we're pleased with both the quality of experiences we're providing and with the revenue growth that we've seen. It really fits in nicely with the idea of putting content into newsfeeds that we think will be of interest to users and provide value for developers. I guess the only other thing I've noticed that it's an incremental audience for us for the most part from an advertising standpoint which is also nice. Some of those developers were advertising with us before a lot of the mobile app Install Ad purchasers or new advertisers to Facebook.

Operator

The next question comes from Brian Wieser with Pivotal Research. Your line is open.

Brian Wieser - Pivotal Research

First of all, I just want to go back into the segments of the advertisers between the brands, developers, small businesses and performance. Is there any way you can characterize what maybe the growth trends have been, even recognizing some of them below the lines or ultimately growth trends between the different ad products. I find it useful to get a sense of where the relative growth is, that will be useful. And then a second question, I just want to get updated thoughts on datacenters and the role of datacenters for Facebook. The degree to which you think that it is strategic in investing and building these out or if it's really just about operational efficiency?

David Ebersman

So in terms of the segments, it's really hard to breakup the revenue because the same advertiser crosses multiple segments with multiple objectives, sometimes with the same ads. So one of the ways we use the segment is to help focus our product development on understanding the different objectives that marketers might have, but then translating that into individual groups of revenue is difficult. So I think that, as Sheryl mentioned, we're particularly pleased with small businesses. That's something that we can measure on Facebook and see the number of advertisers increasing.

In terms of datacenters, I think it is both strategic and operational. There's no question that owning our own datacenters removes sort of another party from the mix relative to when we used to lease datacenter space. It also enables us to build the datacenters to look exactly as we want them to look so that the performance is optimized for precisely what Facebook needs to do with the servers that we put in there, and there's definitely some efficiency that comes from that. But I would also say that it is, given what we are trying to do in the world we are trying to reach, I do think it's strategic for Facebook to not be dependent on third parties to provide that critical part of our supply chain.

Operator

The next question comes from Aaron Kessler with Raymond James. Your line is open.

Aaron Kessler - Raymond James

Yes, couple of questions. On the unpublished Page posts, can you give us an update. I think that got released towards the end of the first quarter, maybe what type of traction you're seeing there. And also going back to kind of U.S. versus Europe, can you just maybe detail -- Europe definitely outperformed U.S. on a sequential basis, was that due to some of the later adoption of some of the sponsor stories in the News Feed or is that something else?

Sheryl Sandberg

On Page post, Page post ads first appeared May of last year and then we just put them into News Feed in March of 2013. In terms of unpublished, what that just means is the ability to target Page post only to the right people. So, for example, without posting it to everyone on your page. For example, if you are a retailer and there was a snow storm in one state, you could target snow shovels or other relevant stuff you want to sell for snow storms only to people in that state. So, it's just a really useful way of segmenting your audience, again part of our overall push to relevant targeting and quality. We're really excited about Page post ads. Over 7.5 million posts have been promoted by pages. Over 30% of the people using the product are new advertisers basically. And I think that speaks to one of the earlier questions on small-to-medium business and their adoption. If you say to an SMB, do you want to become an advertiser, that's a heavy lift. If you say to them, you have a page, you've posted something, do you want to pay a few dollars to promote this post to reach more people, that is a much easier on ramp to advertising spend with us and we think it's working really well.

David Ebersman

In terms of U.S. and Europe, I really don't have a lot more to add. The Europe number as I said was strong in Q1. I'm certain it's true that for some of the products that we roll out the U.S. represents the first adapters and then they spread their way to other clients around the world. But I don't have any specific evidence to support that that was key to the trends in Q1.

Deborah Crawford

Operator, I think we have time for one more question.

Operator

The next question comes from Daniel Ernst with Hudson Square Research. Your line is open.

Daniel Ernst - Hudson Square Research

Two questions if I may. If we look at the broad base of all ad impressions across Facebook whether it's desktop or mobile, can you give us a sense of what percentage of those are generated or conditioned by social statistics or socially relevant data that comes out of the Facebook experience versus ads conditioned by external data like from Acxiom or it's from retargeting traffic from other websites. And then second, within the category of apps and others, can you give us a sense of is there any materiality around the other

categories that's not apps payments or what part of that might have been Facebook type services like gifts? Thank you.

David Ebersman

So to your first question on mobile and I think the question was on mobile ad load, is that right?

Daniel Ernst - Hudson Square Research

No. It was whether it's mobile or desktop, what part of the --?

David Ebersman

All right. I got lost in the second question which I should have written down to the first one. So right now you asked about Acxiom and things like that. That's a very small percentage of the ad impressions we show. So hopefully overtime we can bring tools to bear that can really increase our ability to do more targeting and more effective targeting than we do today. In terms of the second part, I think you're asking about the whole payments and another fees revenue lines. So I said the whole line grew by 15%. Games represented 12% growth. So the increment in between the 12% and the 15% came primarily from user promoted posts, which is a product we launched last year to a lesser degree also from our gifts product.