

Operator

Good afternoon. My name is Chris, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Facebook Second Quarter 2015 Earnings 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. This call will be recorded.

Thank you very much. Ms. Deborah Crawford, Facebook's Vice President of Investor Relations, you may begin.

Deborah Crawford - Director-Investor Relations

Thank you. Good afternoon, and welcome to Facebook's Second Quarter Earnings Conference Call. Joining me today to talk about our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and Dave Wehner, CFO.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements and actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in today's press release and on our Annual Report on Form 10-Q filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and 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. The press release and an accompanying investor presentation are available on our website at investor.fb.com.

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

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

Thanks, Deborah. And thanks, everyone, for joining today. This is a good quarter for us. We've continued to make good progress in the growth of our community with 1.49 billion people now using Facebook each month and more than 1.3 billion people using Facebook on mobile. We've also continued to make gains in engagement. More than 968 million people worldwide now use Facebook daily, and 65% of our monthly actives are daily actives.

Several products in the Facebook app are reaching global scale, too, now with more than 450 million people using Events each month and more than 850 million people using Groups. And when it comes to time spent across Facebook, Messenger and Instagram, people are now spending more than 46 minutes per day on average, and that doesn't include WhatsApp.

Our business performance has grown with our community. This quarter, our total revenue is more than \$4 billion for the first time, and advertising revenue grew by 43% year-over-year. These results reflect the ongoing investments and improvements we've made and the quality, performance and usefulness of our services, and continuing to make progress here remains our biggest priority.

Now, with that in mind, I'd like to talk about how we're working on this across our current product, our next generation of apps and our long-term innovation efforts. Over the next few years, our main focus is on helping our existing communities and businesses reach their full potential. An important part of our strategy is continuing to deliver great experiences across all our products. This means improving the speed and reliability of our apps and building new infrastructure to support our global scale, like our new data center in Texas.

Over the last six months, we've improved the performance of our core app, reducing crashes on iOS by more than 30% and some Android phones by more than 40%. On Messenger, people can now send messages up to 20% faster, and it's twice as fast when you start the app. These are just a few examples of how our engineering focus is delivering better experiences for everyone in our community.

Another part of delivering great experiences is helping people connect to the content they want. This quarter, we've continued to focus on improving people's experience in News Feed by making it easier to find more relevant and engaging content from friends and the entire community. Connecting people with more great video content is an important part. Video continues to be some of the richest and most engaging content for people and publishers, and since the start of the year, pages are also sharing more than 40% more videos. This quarter, we updated our News Feed ranking to help people see more of the videos they care about and also began testing new options for video monetization to help our partners build their businesses. We're excited about the potential for continued work here.

The focus we've had on video also supports our efforts to connect more people around important public moments and events. From the 59 million people who generated more than 300 million interactions around the Copa America to the 26 million people who changed their profile photos for Pride

or the more than 150 million people who were notified that their friends were safe after the Nepal earthquake. Facebook has clearly become the home for global conversations about things that people care about.

And when it comes to serving businesses on our platform, this quarter, we continued to focus on delivering more useful tools and resources to help them achieve their goals. Helping marketers to tell more visually engaging stories through video and carousel ads is an important focus, as well as supporting small businesses. There are now more than 40 million small and medium-size businesses, using pages on Facebook. So we have a big opportunity to create value for communities all over the world, and Sheryl is going to talk more about this in a moment.

Next, let's talk about how we're building our next generation of services, which we also expect to be important parts of our business over the next few years. With Instagram, the continued growth in the size and engagement of the community shows how this is becoming one of the best places to get a real-time snapshot of the world. For moments from the U.S. presidential campaign trail to NASA's first photos from Pluto, people are using Instagram in a lot of interesting ways. This quarter, we made some big improvements to the app, including upgrading our search and explore functionality and introducing trending content, which we expect will provide even more engaging experiences.

On Messenger, this quarter, we rolled out a number of new features, including mobile video calling, a new way to share locations and the option to sign up for Messenger without using a Facebook account. We also continue to make good progress building out the Messenger platform. We expect these improvements to continue making Messenger a more useful and engaging experience for lots of people. More than 700 million people now use Messenger and we've reached more than \$1 billion downloads on Android. These milestones are a good sign that we're on the right path here.

With WhatsApp, we're pleased with our continued growth, and the team is continuing to roll out new features to serve the whole community. We've continued to improve the web experience for WhatsApp as well as launching voice calling to more people and on more devices.

With Search, we are continuing to build a better experience for our whole community. We recently crossed 1.5 billion searches per day, and we've now indexed more than two trillion posts. This is a huge set of unique experiences and perspectives, and by allowing people to unlock this knowledge, we have a huge opportunity to create value for the world in the coming years.

Finally, let's talk about our other efforts that we expect to deliver impact over the longer term. With Internet.org, we have a lot of momentum with our goal of connecting everyone in the world to the Internet. A year ago, we launched the Internet.org app for the first time in Zambia. And since then, we've made free basic Internet services available to more than 1 billion people in 17 countries. Our results show that Internet.org is working. After launching free basic services, mobile operators are seeing people adopt mobile data 50% faster than before. And more than half the new people coming online through Internet.org choose to pay for data and access, more Internet services within their first 30 days.

We recently made changes to the Internet.org program for both developers and operators that will give more people access to even more free services. With the Internet.org platform, now it's easy for any developer to create services that integrate with Internet.org. And just this week, we announced a portal for operators that makes it easy for them to quickly launch free basic services in new countries.

We're also making progress on our efforts to connect people living in some of the most remote communities on earth. Our Connectivity Lab is working on new technologies for connecting communities, that include drones satellites and laser communication systems, and we'll be sharing more of our progress here very soon.

And with Oculus, we've announced that the Rift will ship to consumers in the first quarter of 2016. The team recently introduced details about the full hardware and software experience that people can expect, including our new touch controllers. Oculus is going to be the best VR experience in the world when it launches and I'm really excited for us to begin to delivering on the promise of virtual reality.

So that's how we've focused our efforts over the last quarter. We're preparing for the future, but we're also working to deliver better experiences and value to our community today. And as usual, I want to thank our whole community, including our employees, our shareholders and our partners. Thanks to you, our community is getting stronger and stronger every day and we're making progress on our mission to make the world more open and connected.

So thank you. And now here's Sheryl.

Sheryl K. Sandberg - Chief Operating Officer & Director

Thanks, Mark. And hi, everyone. We had another strong quarter and a great first half of the year. Ad revenue grew 43% year-over-year, 55% on a constant currency basis. Mobile ad revenue grew 74% year-over-year,

making it over three-quarters of total ad revenue. Our growth was broad-based across all marketer segments and industry verticals. Similar to Q1, we're pleased with the adoption of our ad products across all regions and we saw strong revenue growth in North America and Asia-Pacific in particular. We're staying focused on our three main priorities: capitalizing on the shift to mobile, growing the number of Facebook marketers and making our ads more relevant and effective.

First, capitalizing on the shift to mobile. People are spending more time on their mobile devices and on Facebook apps. We continue to get more than one out of every five minutes on smartphones in the U.S. and mobile usage is driving our growth globally as well. We believe we have the best performing mobile ad product in the market and video's making it even better. With so many consumer videos being watched on Facebook, video ads are a natural part of the News Feed experience. For marketers, video has always been a compelling format. Now Facebook enables mass reach and cross device targeting and measurement abilities far superior to what other platforms offer. Mobile video was a major theme at the Cannes Lions Festival last month, where some of the biggest winners, like Under Armour's I WILL WHAT I WANT with Droga5, and Procter & Gamble's Like a Girl with Leo Burnett used mobile video on Facebook as part of their campaign.

Our second priority is growing the number of marketers using our ad products. In Q2, we announced that 40 million small and medium businesses have active Facebook pages, and this number continues to grow. Earlier this month, I hosted SMB roundtables in Berlin and London. I got to hear firsthand how advertising on Facebook is helping SMBs sell their products, grow their businesses, hire new employees and even expand to other cities and countries. One of the business owners I met was Kelly Wright (11:43), a single mom who started selling dresses from her home. She began by shooting videos of her dresses on her mobile phone and promoting them on Facebook for just a few pounds. Using Facebook as her only marketing channel, Kelly grew her business, Krista Lee Fashion, (11:59) to over £3 million pounds annually and she now has 10 employees.

We're increasing our engagement with the global SMB community and have now held more than 80 local Boost Your Business events around the world, meeting thousands of businesses and getting their feedback on how we can make our products work better for them. We're also building out our leadership teams around the world. In recent weeks we've added senior talent to our international teams, including a new head of Latin America and new regional leadership in several countries in EMEA. We also opened an office in Johannesburg, our first in Africa.

Our third priority is making our ads more relevant and effective. Better, more engaging and relevant ads are good for people and marketers, and we're working hard to improve them. We continue to innovate at a rapid pace by introducing new ad formats and new tools for marketers. This quarter we expanded carousel ads, which show multiple images in one ad unit. We introduced dynamic product ads, which allow marketers to upload their product catalog and show the right product to the right person at the right time. We also introduced a new ad format called Lead Ads, a simpler way for people to connect with companies they're interested in hearing from.

We continue to focus on providing world-class products and tools for direct response advertisers. Booking.com, a Priceline Group company, is using Facebook link ads featuring Book Now button to drive reservations. In Q2, Facebook ads drove a meaningful increase in room reservations for Booking.com, helping them meet their ROI goals for the campaign. They're now expanding their use of Facebook ads across multiple markets.

We continue to make progress with ads on Instagram. In Q2, we launched Instagram ads in Brazil, Germany and Japan. We also introduced additional capabilities for marketers, including carousel ads on Instagram, which brands are using in creative ways. For example, to showcase a spring fashion collection, gradually reveal a full panorama or show different views of a location. Over the coming months, Instagram ads will be available to more advertisers with new formats, better targeting and the ability to buy online as well as through third-party planners. As we ramp Instagram ads, we remain focused on quality and relevance to ensure the best experience for people and the highest performance for marketers. And as always, our highest focus is on the consumer experience with Instagram.

Measurement is a key priority as we work to expand our share of global marketing budgets. Since we introduced conversion lift, which measures the direct impact that Facebook ads have on sales, we've seen adoption for marketers across verticals. When Acura launched the TLX, the largest launch in their history, they used Facebook video to show the TLX in scenarios that quickly captured people's attention, like imitating a roller coaster. They then used our retargeting technology to show more detailed ads only to the people who watched the videos. Using conversion lift, they proved that Facebook ads directly drove vehicle sales.

To help marketers target and measure campaigns both on and off Facebook, we're continuing to build out our ad tech platform with Atlas LiveRail on the Audience Network. Entertainment company Live Nation knew that people browsed for concert tickets on mobile devices, but they were never able to measure whether they converted into sales. Using Atlas, Live Nation was able to link their mobile ads to 66% more ticket purchases for one of their

largest artists. This shows the promise of Atlas to measure cross device conversion. We're pleased with the progress we're making on all three of our main priorities and we plan to stay focused.

Now here's Dave.

David M. Wehner - Chief Financial Officer

Thanks, Sheryl, and good afternoon, everyone. Q2 was another strong quarter for Facebook. We generated \$4 billion in revenue and \$1.3 billion in free cash flow. Strong community growth and engagement underpinned our financial performance. In June, approximately 968 million people used Facebook on an average day, an increase of 17% compared to last year. This daily number represents 65% of the 1.49 billion people who used Facebook during the month of June. That MAU number grew by 173 million year-over-year, and by this measure the second quarter was our strongest in terms of community growth since 2013.

Mobile remains the key driver of our growth. In June, approximately 1.31 billion people accessed Facebook on mobile devices, up 23% from last year. We also saw strong growth in our next generation of services with Instagram, Messenger and WhatsApp now exceeding 300 million, 700 million and 800 million MAU respectively.

Now turning to the financials. All of our comparisons are on a year-over-year basis unless otherwise noted. Additionally, our non-GAAP measures exclude stock-based compensation and the amortization of intangibles. Total revenue was \$4 billion, up 39%, or 50% on a constant currency basis. Ad revenue was \$3.8 billion, up 43%, or 55% on a constant currency basis. The strengthening of the U.S. dollar has continued to have an unfavorable impact on our revenue. Had foreign exchange rates remained constant with Q2 2014 levels, our total revenue this quarter would have been approximately \$330 million higher.

Regionally, we saw strong North American ad revenue growth of 55% in the quarter, and APAC growth also remained strong at 48%. Europe and the rest of the world ad revenue grew more slowly at 30% and 22% respectively, as currency had a significant negative impact on each of those regions' year-over-year growth rates. Mobile is the engine of our revenue growth. Mobile ad revenue in Q2 was \$2.9 billion, up 74% from last year, and represents 76% of our advertising revenue. Revenue from ads served on personal computers was down approximately 8%. In Q2, the average price per ad increased 220% while total ad impressions declined 55%. Similar to last quarter, these price volume trends were primarily driven by the redesign of our right hand column ads, which rolled out in the third quarter of last year.

To a lesser degree, the shift of usage towards mobile, where we don't have right hand column ads, also contributed to the reported price volume trends.

Total payments and other fees revenue was \$215 million, down 8% compared to last year. The decline was driven by a 19% year-over-year reduction in payments revenue related to games played on personal computers, offset primarily by the addition of other revenue related to acquisitions closed in the second half of 2014.

Turning now to expenses. Our Q2 total GAAP expenses were \$2.8 billion, up 82%, and non-GAAP expenses were \$1.8 billion, up 57%. Similar to last quarter, stock-based compensation and amortization expenses related to the WhatsApp acquisition contributed significantly to the year-over-year growth in GAAP expenses. Non-GAAP expense growth was primarily driven by increases in head count-related costs, cost of revenue and marketing expenses. We ended the quarter with 10,955 employees, up 52% compared to last year. With 873 additional employees, Q2 was one of our strongest quarters in terms of hiring, and the majority of the new employees were added in R&D.

Our Q2 GAAP operating income was \$1.3 billion, representing a 31% operating margin. Non-GAAP operating income was \$2.2 billion, representing a 55% margin. Our Q2 GAAP and non-GAAP tax rates were 44% and 36%, respectively. Q2 GAAP net income was \$719 million or \$0.25 per share, and non-GAAP net income was \$1.4 billion or \$0.50 per share. In Q2, capital expenditures were \$549 million and we generated \$1.3 billion of free cash flow. We ended the quarter with \$14.1 billion in cash and investments.

Turning now to the outlook. Let's start with revenue. Since the first quarter of 2014, we have seen year-over-year advertising revenue growth rates decline each subsequent quarter. We expect this trend to continue in Q3 and Q4 as we continue to grow off a much larger base and face currency headwinds due to the strong dollar. In addition, we expect our total payments and other fees revenues to decline on a year-over-year basis for the remainder of the year. The decline in the second half of the year should be closer to the 19% year-over-year decline we experienced in the Payments business alone as we will be lapping periods in which we added other fees revenue from acquisitions closed in the second half of 2014.

Turning to expense guidance. Based on our second-quarter results, we are narrowing the expense guidance range for 2015. We now expect the year-over-year growth rate for total 2015 GAAP expenses to be between 55% and 60%, narrowed from the prior range of 55% to 65%. And we expect the year-over-year growth rate for total 2015 non-GAAP expenses to be between 50% and 55%, narrowed from the prior range of 50% to 60%.

We anticipate our 2015 capital expenditures will be in the neighborhood of \$2.5 billion to \$3 billion, down slightly from the prior range of \$2.7 billion to \$3.2 billion. We continue to expect stock-based compensation in 2015 to be in the range of \$3 billion to \$3.3 billion, approximately half of which is related to our prior acquisitions, most notably WhatsApp. We expect amortization expenses in 2015 to be approximately \$700 million to \$800 million. And lastly, we anticipate our Q3 and full year 2015 GAAP and non-GAAP tax rates to be consistent with the rates in the second quarter.

We had a great first half of the year with solid revenue performance underpinned by healthy community growth across all of our services and regions. We have many exciting opportunities ahead, and we are investing in the talent and resources to capitalize on them as we seek to build long-term shareholder value.

With that, operator, let's open up the call for questions.

Question-and-Answer Session

Operator

Thank you. We will now open the lines for the question-and-answer session. Your first question comes from the line of Anthony DiClemente with Nomura Securities. Your line is open.

Anthony DiClemente - Nomura Securities International, Inc.

Thanks a lot. I have one for Mark and one for Dave. Mark, Facebook has had so much success in terms of the engagement, the growth of the engagement. I'm just wondering if there's a framework that you used to think about how much of that success is due to just the core value proposition of Facebook itself continuing to resonate with people at its most basic level as opposed to the product innovation that you've detailed in your prepared remarks or in your use cases? Which are more of a driver in your mind?

And then second one for Dave. CapEx being down as a percentage of revenue in 2Q and you lowered the guidance. It doesn't feel like you guys are in the midst of ramping investment in the infrastructure. I wonder, as you look at the assets, you have so much growth, you have a shift to bandwidth intensive content and applications. Do you feel like you guys have just been more efficient in terms of your CapEx spend, or at some point should we anticipate a reacceleration of CapEx? Thanks.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

I can talk to the first part. So at some level, I do think that the core mission and promise of helping to connect people with their friends and family is very fundamental, right? And everyone has friends and family and wants to stay connected and uses a variety of tools and ways to do that in the world today, which are often very inefficient, and the Internet offers new opportunities to make that a lot better. When you look at the specific products that – and the work that we're doing, there's this process that we've followed that – where basically we'll look at an area of our products that people are using. So for example, going back a few years, News Feed, right, was – it's always been, since we rolled it out, a very central part of the product.

But we're looking at the stuff with increasing rigor now where we organized the company into these product groups, and each product group leader will not just look at the product as one thing, but what are the key three or four or five use cases which often can really be their own product lines on their own, and we go through and we build those out to be world-class. And I think a lot of the success that we've seen has been because of some of the work that we've done a few years back at this point in products like News Feed and I mean that team has executed really well.

But when I look forward, I'm very excited about doing the same thing for messaging and groups and video. There's many different use cases. You don't want to just look at these as one thing. There are a bunch of different use cases, and we want to be the best at each of them. And if you have good people leading those teams, then I think you can deliver that over time. So I think yes is the answer to your question. The mission is fundamentally deeply important to people, but that has to be coupled with good thorough execution of each of the available opportunities.

David M. Wehner - Chief Financial Officer

Yeah, Anthony. It's Dave. So on CapEx, we are absolutely investing in the infrastructure and 2015 is an investment year, so we are ramping CapEx versus 2014. The guidance is \$2.5 billion to \$3 billion, and that's up from \$1.8 billion last year. We've got a lot of infrastructure investment that we're making across data centers, servers, network. We are clearly investing for the growth of both Facebook at its core and then also the additional services that we're bringing on.

So we're proud about the efficiencies that we've had. The infrastructure team has done an outstanding job in driving good efficiencies through things like the Open Compute Project, which allows us to leverage an open-source strategy to lower our costs on server and other expensive hardware. It's been a great strategy for us. But given the growth we have in the business,

given the opportunity we have before us, we're very much in investment mode in terms of the infrastructure.

Operator

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

Douglas T. Anmuth - JPMorgan Securities LLC

Thanks for taking the question. Mark, you talked about Oculus Rift shipping in 1Q 2016. Can you talk more about what you're most excited about in terms of the primary applications when it's into the mainstream? And then, Dave, can you also help us understand the cost structure more here as that product ramps? And then, Sheryl, if you could help us understand how broadly Instagram will open up to advertisers by year end? Thank you.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

I can talk about Oculus. So the reason why Facebook is excited in this space is I can give you two reasons for this. One is there's this continued progression of people getting richer and richer ways to share what's on their minds. So if you go back 10 years, most of how people communicated and shared was text. We are going through a period where now it's mostly visual and photos. We are entering into a period where that's going to increasingly be primarily video, and we're seeing huge growth there. But that's not the end of the line. I mean, there's always a richer way that people want to share and consume thoughts and ideas and I think that immersive 3D content is the obvious next thing after video.

So if you look at what the initial use cases are going to be around that, I think it's a lot of the stuff that you hear people talking about. Video I think will be huge. So just taking that to be 3D and immersive. Gaming will be huge. And those are both areas that Facebook has been involved with. Once we start to get more of a critical mass, I think you can start to get social applications, which is what we as a company are more interested in over the long term and think have a huge amount of potential in addition to the video and gaming stuff, which I just think is going to be awesome in the next few years as well.

David M. Wehner - Chief Financial Officer

Hey, Doug. It's Dave. So just on the question of how Oculus would affect the cost structure, it's premature for us to be giving guidance on the cost structure in 2016. But I think one of the things to recognize here is that we're still early with Oculus. We haven't announced any specific plans as it

relates to shipment volumes for the consumer for Rift. But we are still early in the development stage, so it'd be early to be talking about large volume shipments. Obviously, we're investing on the research and development side on Oculus in 2015 and that's factored into our expense guidance for this year.

Sheryl K. Sandberg - Chief Operating Officer & Director

On Instagram, we are opening up to more advertisers. I talked about some of our global rollouts in the past quarter. We're also opening up more capabilities, which means more formats, like direct response, more ways to buy, like self-serve. That said, and it's important to understand this, while we think there's a lot of interest and great opportunity, we're going to be really thoughtful and strategic about how we ramp revenue. Instagram remains small relative to Facebook and it's going to really take time to have significant impact on our growth.

Operator

Your next question is from Heather Bellini with Goldman Sachs. Your line is open.

Heather A. Bellini - Goldman Sachs & Co.

Great. Thank you for taking the question. I just wanted to ask a little bit more about as you start to speak with more advertisers on the Instagram opportunity, how are you and they thinking about the differences in how they'll engage with their customers across both platforms? And I guess what I'm getting at is do you see Instagram targeting a different type of advertiser, or do you expect people to leverage both platforms and almost think of them as kind of separate areas to budget for?

Sheryl K. Sandberg - Chief Operating Officer & Director

I think one of the things that's interesting about Instagram is while the ads are really visually appealing and that brings to mind certain verticals like fashion or autos, things where the visual really matters, what we're seeing is that lots of different verticals can use the platform really well. So a recent example, HTC working with their agency Swift did Instagram videos to raise awareness of their mobile device warranty program. So they targeted 18- to 34-year olds, they did five short videos with these funny moments of where you're about to break your phone, and they got a 6 point lift in awareness of what is a warranty program. I think that's not something you would think of typically as Instagram.

In terms of Instagram and Facebook, we believe that marketers are looking to connect with people in a really deep way, connect with the right people, and our targeting we think is really strong compared to any other platform, at the right time. And that really means mobile. And we see such engagement on both Facebook and Instagram along with the different targeting and ad formats, we believe we'll be able to have and are already starting to have a relationship with marketers which grow across both platforms.

Our focus with our marketing partners is their business results. I talked about in my remarks how we're looking for conversions. We're trying to help them measure. If you do a car ad for us, how many vehicles were driven off the lot? We see what products you use within Facebook or Instagram, or Facebook and Instagram, as less important as the best products for the right marketer at the right time to drive their business results. And we like having more abilities, more products, more apps to work with so that we can drive those business results.

Operator

Your next question is from Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak - Morgan Stanley & Co. LLC

Thanks for taking my question. There are two. In early June you rolled out some new CPC measurement methods about how the changes in the clicks and the CPCs are measured. Just being curious about kind of early findings you see in ad engagement growth, average price per ad, and then the advertiser feedback or change in budgeting since you've rolled out these CPC measurement changes? And then the second one, the North American advertising results are really strong, I think you had accelerating growth. Sheryl, could you just call out any specific ad products that are driving this faster North American ad growth? Thanks.

Sheryl K. Sandberg - Chief Operating Officer & Director

On the first, we're always trying to improve our ad products so marketers can buy what they want and pay as they want to pay. We recently announced that we're updating the definition of CPC so that includes only websites and apps. But you can also buy on a cost per engagement basis, and that include likes, comments, and shares. It's too early to see any direct impact, but I think it's part of the innovation that you'll see from us as we continue to roll out different ways that marketers can use our tools, different ways they can pay, different results they can target. When you look at our overall growth, our growth is very broad-based. We're broad-based against

all of our segments of marketers, so brand and direct response, SMBs and developers.

Definitely a part of the story here is video. Our video demand is very deep. People love the format of video. It's long been used to reach people in a compelling way, and we can do targeting in a way that's really unique. So I'll share another example. Wendy's, working with their agency, VML, launched their Jalapeno Fresco Spicy Chicken product and they were trying to reach millennials and spicy food lovers. So working with us, they did five video ads, and on our platform, they could not just do the video format but they could target millennials and people who like spicy food, which is very specific targeting. They got an eight-point lift in ad recall and a four-point lift in purchase intent among their millennial target. And so what that shows is our growth is being driven by the ability of us to do this broad-based consumer media advertising but do it in a more targeted way.

David M. Wehner - Chief Financial Officer

Yeah. And I think, Brian, you were also commenting on North America. Obviously, it's probably, everybody realizes this, but the big disparity between the U.S.-Canada growth rates versus the other regions like Europe and the rest of world are the currency headwinds, which had a very significant impact to the year-over-year advertising growth rates in those regions.

Operator

Your next question is from John Blackledge with Cowen & Company. Your line is open.

John R Blackledge - Cowen & Co. LLC

Oh, great. Thank you. A couple of questions on video. Mark, I think you mentioned potentially some new options for video monetization. Maybe could you discuss some of the new options that we may see implemented? And just more broadly, how does video content evolve on Facebook from kind of what we see today? Thank you.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

Well, I can talk – oh, you want...

David M. Wehner - Chief Financial Officer

You can go first.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

Yeah, I mean, on the options on video monetization, it's going to be, still our focus is going to be on continuing to grow autoplay and continuing to leverage the video unit in News Feed. That's going to be the primary driver of video growth for us. So that's really the main focus. We've got other areas that we're experimenting with like suggested videos, which are going to be very much like those ads in a feed of suggested videos, which are also an opportunity for us. But essentially, the focus is going to be on monetizing through feed ads for video.

David M. Wehner - Chief Financial Officer

I think you got them.

Operator

Your next question is from Justin Post with Merrill Lynch. Your line is open.

Justin Post - Merrill Lynch, Pierce, Fenner & Smith, Inc.

Great. Thank you. I think on the call, you said times spent was 46 minutes per day. Any comparable metric from past quarters? And then how would you, if you can give us that, how would you gauge the overall engagement of Facebook just for the core site? Maybe some help about what you're seeing there and what products are really having an impact. Thank you.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

Well, I think in terms of engagement the product is having, the biggest impact is News Feed continuing to do very well. So News Feed at the core is proving to be just a great experience for users. It's getting better. We continue to invest in that. As people spend more time with News Feed, we get better about understanding what they like and getting the content that they care about in front of them. So we're investing on that front. We're also doing more with public content. That's having an impact. So we're seeing across the board good improvements to News Feed. Video is another big contributor there as well.

So, I mean, that's what we're seeing in terms of driving engagement. Engagement across the different regions as we think about it from a DAU-to-MAU perspective was at record levels in the quarter, so we're pleased with that. And we continue to see time spent grow across the platform. So on all those measures, we really like what we're seeing and we like the investments that we're making to make that News Feed experience even better.

Operator

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

Ross Sandler - Deutsche Bank Securities, Inc.

Great. I just had two questions, one for Mark and then one clarification for Dave. Mark, question on the messaging app. So the (37:37) from the first day keynote at the end of the day, Brian Acton and David Marcus were basically presenting different strategies in terms of their long-term philosophy around monetization of those two platforms.

So if you look out three or five years, do you see the opportunity with Messenger and WhatsApp as being similar or can you just talk about the strategy there? And is the engagement for the messaging apps similar, higher, lower than the average for the core Facebook app in terms of daily visits? And then, Dave, you mentioned that you expect ad revenue to decelerate. I'm guessing that's a function of some of the FX headwinds. Can you talk about that on a currency neutral basis relative to the 55% in the second quarter? Thanks.

David M. Wehner - Chief Financial Officer

Sure. I can take the second part first. So in terms of – also you had asked about the growth rate in the back half of the year, so I'd kind of reiterate what I said in my comments. The business continues to perform very well, driven off the strength of our mobile News Feed apps business, and really consistent with the trend we've seen in the last several quarters, we would expect that year-over-year ads growth rate to decline modestly in Q3 and Q4, and it's really because we're delivering growth against a much larger scale News Feed business in the prior-year period and also, of course, headwinds are an impact as well, as you mentioned.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

And I can talk to the messaging strategy question. So the playbook that we're going to run with Messenger and WhatsApp is kind of similar to how we thought about building a business in Facebook and News Feed, where if you go back to 2006 and 2007, there were a lot of people who were kind of encouraging us to just put banner ads and kind of inorganic content into the experience, and what we decided was that over the long term, the ads and monetization would perform better if there was an organic interaction between people using the product and businesses.

So instead of focusing on ads first, what we did was we built pages, and we made that free, that way as many businesses as possible could get into the network. And we built insights to make it so that businesses knew how they

were driving business when they used pages for free and could post them to News Feed. And then on top of that whole ecosystem, we then had the opportunity to build what has turned into a News Feed business that we're really proud of, right. That we think is driving a lot of value and good content for people who are using the platform and helping a lot of businesses find customers and sell their products and grow overall.

Messaging, I think, is going to be pretty similar, right? Where right now some people in WhatsApp use the service in order to message businesses, Messenger is, I think, more people-to-people today. We're working on a lot of different things that make it so that people can get value from interacting with businesses. We launched some of them at F8. We have a number of other things that we're working on across Messenger and WhatsApp. But the long term bet is that by enabling people to have good organic interactions with businesses, that will end up being a massive multiplier on the value of the monetization down the road when we work on that and really focus on that in a bigger way. So we'd ask for some patience on this to do this correctly, and the game plan will be more similar to what we did in Facebook with News Feed.

David M. Wehner - Chief Financial Officer

And, Ross, you also asked about, I think, the impact of Messenger on our user statistics and the daily users. The vast, vast majority, virtually all of Messenger users, are using News Feed as well. So Messenger-only usage is not having a material impact on our overall usage stats.

Operator

Your next question is from Mark May with Citi. Your line is open.

Mark May - Citi Investment Research

Thanks for taking my questions. I had one on search. I think you mentioned 1.5 billion daily searches. Just kind of curious what portion of those are commercial, if you will, not so much lookups for friends and family but more commercial oriented, and kind of can you give us an update of where you are in the process of building out an even more robust search experience on Facebook and across the other family of apps?

And then on Instagram, just a question on kind of how we should be thinking about the ramp as well as the long term opportunity. I guess the question would be in your tests, have you noticed any meaningful difference in Instagram users' willingness to see or interact with ads and their News Feed as compared with an average Facebook user, recognizing that probably

Instagram's audience is more geared toward some of the developing markets in the U.S. relative to Facebook? Thanks.

David M. Wehner - Chief Financial Officer

Sure. On the search experience, and Mark can add anything if he'd like, but on the search experience from a monetization perspective, the vast majority of the searches are for people or posts, and there can be – there's the potential for there to be commercially relevant content in people's posts, people searches, which is the largest part of searching, is not something that we think is really up the monetizing category. But there's certainly great content that people are finding using post search, but it's really – the focus is really to try and allow people to discover content that's been shared on Facebook that's relevant to them, and that's going to be the focus in the near term. And as people consume more content on Facebook, there's opportunities to show them ads in Feed, so there's an opportunity there, but it's really around engaging with content that you want to find on Facebook.

Sheryl K. Sandberg - Chief Operating Officer & Director

On Instagram, we haven't noticed any difference in willingness to engage with ads between the platforms for Instagram and Facebook, but we've ramped really slowly and we're very, very cautious. And again, we're going to continue to focus on the user experience, focus on the community growth and monetization will follow.

Operator

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

Ben Schachter - Macquarie Capital ([USA](#)), Inc.

Yeah, just a couple of questions. One, given your success with standalone apps, should we expect to see more apps in the future, and could one of those focus specifically on video? And then on Oculus, the monetization for that, should we expect an App Store-like model where you'll be sharing revenue with the content partners? Thanks.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

We work on a lot of different things. I don't think we'd rule out the things that you just mentioned, but we don't have anything specific to talk about today on either of them I think.

David M. Wehner - Chief Financial Officer

Obviously, a big part of our investment strategy is investing in this next generation of apps and the focus there is on growing the communities around Messenger, WhatsApp and, of course, Instagram. That's all going really well and that's a big focus of our investment.

Operator

Your next question is from Mark Mahaney with RBC Capital Markets. Your line is open.

Mark S. Mahaney - RBC Capital Markets LLC

Great. Thanks. Two questions. David, the sales and marketing expenses this quarter were almost flattish sequentially. You don't normally see that in your business. Is there anything, any particular reason behind that why you didn't have that area grow? I assume it will continue to grow going forwards.

And then, Mark, you made a comment about. I think you were referring to Instagram becoming one of the best places to get a real-time snapshot of the world. And it kind of reminds me or makes me think about some other leading platforms on the Internet. And I wonder how does that happen with Instagram? Is that something that you're already seeing users use Instagram to make that happen? Or is that something that you have to kind of tweak the user interface and change the product a little bit in order to try to have people think about it that way? How does it become that real-time snapshot of the world? Thanks.

David M. Wehner - Chief Financial Officer

So on the sales and marketing expenses, Mark, I think you're going to see that be lumpy. That's just due to product marketing and that's just not going to necessarily be a steady quarter-to-quarter trend. So you're going to see that be lumpy. But, yes, we are investing more in general in sales and marketing over time, so you'd expect to see that line grow in line with the expense guidance that we're giving. So it's definitely an area that we'll be investing in on an ongoing basis and I wouldn't read too much into the quarterly trend there.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

Yeah, and in terms of Instagram, I just think Kevin and the team are doing amazing work. The clarity of focus and clarity of the vision that Kevin and Mike have has been exceptional. And this is something that they've always focused on. They've cared deeply about it since the first conversations I've had with Kevin. And I think it takes real composure as a leader to scale something to many x where it was just a few years ago and build up the

organization and be able to continue pushing the products forward every day to be able to do that. And I think it's rare that you get someone who's as talented as the folks who are leading this. And they're just doing an amazing job.

Operator

Your next question is from Paul Vogel with Barclays. Your line is open.

Paul Vogel - Barclays Capital, Inc.

Great. Thanks. Kind of a similar follow-up question to Mark's. Your DAU to MAU number has been exceptionally strong and moving up. I'm going to guess a lot of that is mobile related. So I guess that would be question number one. Is it a lot mobile?

And the second question would be sort of again around this real-time issue. Are you seeing more real-time usage of Facebook and are you developing more products specifically around kind of real-time usage of Facebook as a platform? Thank you.

Mark Elliot Zuckerberg - Chairman & Chief Executive Officer

I think a lot of it is that we're getting better and better at ranking and showing people the content they want. And part of it is that there's of course a bigger opportunity when people have their phones with them all the time, but I think that there are plenty of other worlds that we could be living in where we wouldn't have necessarily executed on that opportunity. And the execution is hard, right? And just kind of having something that's appealing universally to people wanting to stay connected with their friends, that's an important piece of it. But I mean, the team has just done really good work in terms of ranking the content and making the experience faster and building out better ways to get feedback from our community on what kinds of content they want to see in News Feed and helping people have the tools that they need to share the social content and news and video content that they want so that way it exists in the corpus of content that can be shown. And I just think the team is doing a really good work on all of these, and I'm really proud of them.

David M. Wehner - Chief Financial Officer

And, Paul, there's no doubt that mobile has a beneficial effect on our engagement in the U.S. Two out of three smartphone users check their phone as soon as they wake up in the morning. It's just having that experience readily available in your pocket is tremendous, and we just see that being helpful across the business as it relates to mobile engagement.

Operator

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

Brian W. Wieser - Pivotal Research Group LLC

Thanks for taking the question. You mentioned 40 million small businesses have active Pages. I'm wondering if you could update us on how many individual small businesses, or businesses in total are buying ads right now?

And separately, I was curious about your current thoughts on how ad tech businesses will evolve. If you see integrated marketplace evolving, or if you see a discreet demand in supply-side businesses evolving?

Sheryl K. Sandberg - Chief Operating Officer & Director

So on the first, we announced that we have over 2 million advertisers who are buying ads on Facebook. And the process for that is often that small businesses become organic users, so those 40 million small business Pages that are using it once a month and then we're able to move them onto being advertisers. And the best way we've done that is by simplified ad products. 82% of people who start advertising with us start with our really simple ad products. You know, do you want to pay a few dollars or a few pounds or a few euro to sponsor this post is a really easy on-ramp for a small business.

In terms of overall ad tech world, I think a lot is happening and there's a lot that's going to evolve in the whole ecosystem. Our focus is on bringing people-based marketing and the effectiveness and relevance of Facebook ads off of Facebook so we can give marketers and publishers the tools to reach people across all of their devices.

An importantly for our business, is connect the dots between online marketing and business outcomes. And you heard on this call me give a few examples of where we're already able to connect what happens in terms of ads with real sales of real products. For us, this is an important investment and it's very strategic. We are going to put the time in to make this work rather than look for any short-run specific return.

Operator

Your next question is from Peter Stabler with Wells Fargo Securities. Your line's open.

Peter C. Stabler - Wells Fargo Securities LLC

Good afternoon. Drafting off that. Sheryl, I'm wondering if you could update us on Atlas. We understand Atlas in and of itself is not likely be a major revenue driver, but we do see it as a strategically important piece of your toolset. So wondering if you can comment on agency adoption. Is it going according to plan? Are you happy with it?

And then secondly, on SMB, just wondering, the 80 events that you've held around the world. In terms of learning come out of those, you talked a little bit about how folks get introduced as users, and that makes sense. Is the toolset simple enough today for SMB's to grasp? Or are there significant additions that you need to make to the toolset to accelerate the growth of SMB advertisers? Thanks very much.

Sheryl K. Sandberg - Chief Operating Officer & Director

So on the first, Atlas is really important because it's solving a measurement problem which is that the current systems for serving and measuring ads are really flawed. They basically assume that you are one person on one of device, and we know that's not true. They are only about 65% accurate in demographic targeting, they don't work on mobile because they are cookie based, they don't work on multiple devices, they don't go off-line to on-line and they overemphasize the last click and reach.

And so our focus with Atlas is helping people really understand the results they get with ads. And you heard my Live Nation example earlier where we are able to connect Facebook ads and our platform directly to ticket sales. We never could have done that without Atlas measurements.

In terms of the migration process, this is an enterprise sale. We have to work client by client. Then they have to choose us, then they have to migrate their systems, and so it's going to take time. What really matters is that when we get that migration and we are seeing it, we are able to show them the value because it makes their buying much more effective because they understand real results in a new way.

In tune with SMBs I would say two things. I would say that, one, our products aren't simple enough yet, because they can never be simple enough for SMBs, but two, our products are probably the simplest ones out there. And so I think we're leading and I think we have a lot more to do. If we look at even in the United States, which is a very advanced market, I think it's something like 35% of SMBs don't have a web presence of any kind. But a great majority of those do have a Facebook page, and that's because setting up a web presence for an SMB is complicated and expensive. You can't just start a webpage. But it is easier and free to start a Facebook page until you see broad adoption.

We also make a lot of things that they couldn't do in other platforms available on us. So over 1 million SMBs have posted a video on Facebook, which is pretty amazing, because I doubt 1 million SMBs have ever run what is a video or TV ad. That's because you can shoot it on your mobile device, you can upload it, you can do that for free or you can pay us for the ad. And so I think our tools are the simplest, but I think we still need to do better because what we hear from SMBs is simple, fast, inexpensive, showing them real return, and we're going to continue to focus on all of those things.

Operator

Your next question is from Eric Sheridan with UBS. Your line is open.

Eric J. Sheridan - UBS Securities LLC

Thanks for taking the questions. I wonder if I could get an update on the e-commerce initiatives including the partnership with Shopify and how we should be thinking longer term about e-commerce becoming a bigger and bigger part of the platform. Sheryl, you called out Priceline.com and the booking relationship during your prepared remarks. Just curious how far that might go longer term. Thanks.

Sheryl K. Sandberg - Chief Operating Officer & Director

So e-commerce is one of our top categories of advertisers, and we are already driving a lot of product sales through Facebook but importantly, our e-commerce initiatives are really about connecting consumers with marketers so that they can buy from companies. They're not buying through us. We are testing a buy button in the new shop section on pages, but again, that buy button is letting people buy directly from their advertisers, not from us. It's pretty early days. We're excited by what we see in the e-commerce vertical and we're going to continue to invest in growing that vertical as part of our ads business.

Deborah Crawford - Director-Investor Relations

Okay. Operator, we have time for one last question.

Operator

Certainly. Your final question is from Brian Pitz with Jefferies. Your line is open.

Brian J. Pitz - Jefferies LLC

Thanks. Questions on audience network. Any updates here including a sense for the level of adoption you're seeing from developers? Also any synergies

with the mobile app install product? And finally any comments on ad price comparisons to traditional News Feed ads? Thanks.

Sheryl K. Sandberg - Chief Operating Officer & Director

We're seeing investment, we're investing in the audience network and we think it's important because it takes – it makes the ads more relevant. It's part of our overall ad tech push to bring the effectiveness and relevance of our ads off us. We're growing the number of advertisers and publishers, and we're continuing to see growth and we'll continue to invest.

When you think about mobile app install ads, those are an important but relatively small part of our revenue. The important thing to understand here is that they're not only used by developers, they're used by all four marketer segments. So for example, HBO used our video retargeting mobile app install ads on Facebook to drive downloads at HBO now, and Facebook is now the number one channel driving subscribers. And I think when people think about our mobile app install ads they often think this only applies to developers and small companies, and really it's them as well but it's also companies like HBO which are using those ads to drive adoption and downloads.

Deborah Crawford - Director-Investor Relations

Thank you for joining us today. We appreciate your time, and we look forward to speaking with you all again.