

Operator

Good afternoon. My name is Jay and I will be your conference operator today. At this time, I would like to welcome everyone to the Facebook Second Quarter 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 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 our Quarterly Report on Form 10-K 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 Web site at investor.fb.com.

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

Mark Zuckerberg

Thanks Deborah, and thanks everyone for joining today. This was a good quarter for us and a good end to the first half of the year. We've continued to grow our community in size and engagement with 1.32 billion people now connecting on Facebook each month, and 63% of them visiting daily. Our momentum remains especially strong on mobile to now 829 million people using Facebook everyday with more than 650 million people using our services on mobile every day.

One thing that's exciting is that there is still so much room to grow. On average, people on the Facebook in the U.S. spend around 40 minutes each day using our service, including about one in five minutes on mobile. This is

more than any other app by are, but overall people in the U.S. spend about nine hours per day engaging with digital media on TVs, phones and computers. So there is a big opportunity to improve the way that people connect and share across -- how we all engage with the rest of media as well.

Now when it comes to our business, we continue to be pleased with our growth. This quarter, our total revenue grew to over 2.9 billion and advertising revenue grew by 67% from a year ago. Mobile now accounts for 62% of our advertising revenue, which is a good sign of how the growth of our community mobile is also producing better business results for our partners. The results this quarter show our continued focus on improving our core products and business. We're going to continue investing aggressively in areas that are important for our mission and long term strategy, but we're also going to stay focused on our core products and business. This is the best way for us to continue creating value for our community.

Now let's talk about how we're making progress and our three big company goals; connecting everyone; understanding the world; and building the knowledge economy. Our strategy for connecting everyone has two basic approaches. Our first approach is Internet.org; our effort to bring affordable Internet access to every person in the world. Our second approach is by giving everyone more tools for connecting, so they can share all the different kinds of content they want with the right people. Instagram, Messenger and creative laptops are a part of the second approach.

So with Internet.org this quarter we've continued to deepen our partnerships with global operators and laid a foundation for running tests in more countries. Already, our initial partnerships in the Philippines, Paraguay and Tanzania have helped around 3 million people connect to the Internet who had no access before. We're really proud of these early results. In June we acquired Pryte, which has a lot of expertise bringing affordable Internet access to communities by partnering with mobile operators, app developers and content providers. Later this year, we expect to launch a broader set of free basic Internet services in a number of other countries as well.

In our app efforts, we're continuing to build momentum with messaging. People now send than 12 billion messages a day on Facebook, and in April we reached 200 million monthly actives on messenger. Last month we announced that David Marcus will be joining us from PayPal to lead our messaging efforts. We expect David to continue growing Messenger, building out new experiences to serve our community and ultimately to build Messenger into an important business.

Instagram continues to make great progress in giving people new ways to share their stories through photos and videos. Last month we made one of the biggest updates ever to Instagram by adding new creative tools that allow people to refine exactly how their photos look and feel. This is an important part of building out Instagram's capability as a platform and serving the creativity of the Instagram community.

Next, let's talk about understanding the world. As of last month, on average, more than 1 billion search queries are made every day on Facebook. This is a great milestone and it shows we're in a unique position to answer a lot of questions for people. But this is just a start. And over the next few years as we make progress on building out search and our broader efforts in artificial intelligence, I expect us to deliver even greater utility for people.

Our progress on public content is also very promising. As part of helping people to better understand the world, we want to help you connect around important public moments and personalities. And now nearly 800 million people on Facebook are connected to public figures. These connections are driving conversations at a huge scale. During the World Cup over 350 million people made over 3 billion interactions on Facebook. To enable even more of these conversations, we've improved the ranking of videos and newsfeed and launched new APIs to help TV and media organizations use Facebook content in their productions. Public content will continue to be a growing focus for us over the coming months and we plan to invest in building more great products and partnerships in this area.

Now building great social experiences to serve our community isn't something we do alone. Supporting developers is a key part of our strategy, and in our F8 conference in April we announced new ways to help mobile developers build, grow and monetize their apps. Over 1 billion people use Facebook on their phones every month and more than 80% of the top apps on iOS and Android now use Facebook logins. So we think we're in a great position to be the cross platform-platform that lets developers build great apps across every platform.

So far we're very encouraged by the reaction from developers. App Links, our new method of deep linking to specific content in any app is now being used by 100s of apps across iOS, Android and Windows phone, with links to more than 1 billion individual destinations in these apps. We also launched our Audience Network, our first big effort to help developers monetize on mobile and we've received a lot of interest from developers. We're rolling out the Audience Network gradually. We're going to continue to ramp this app over the coming months and are excited by the opportunities ahead.

Finally, let's talk about our efforts to build the knowledge economy. This has been a strong period for us, and we've reached some new milestones in the business. Now more than 30 million small businesses use Facebook pages to connect with their customers and more than 1.5 million of them are active marketers on Facebook. To continue delivering the best returns for marketers, we've been very focused on improving the quality of the ad experiences for our community. Our goal here is to make ads as interesting and useful as your friend's content on Facebook. We're investing heavily in this area. In this quarter we launched a number of efforts to improve the quality and relevance of our ads, including our new ads preferences tool, interest based advertising and improvements to News Feed design to reduce low quality content.

In some countries our surveys indicate that our ads are getting close to the quality level of organic content. But in most developed countries we still have lot to do. We expect to continue to focusing on this for a long time.

So that's my update on how we've been executing over the last quarter. It's been a quarter with good performance and continued momentum. So I want to thank everyone who works with Facebook and is part of our community, including our shareholders and partners. Because of your efforts, we're continuing to make progress towards our mission to help connect the world, and we're improving 100s of millions of peoples' lives every day. I am grateful for your support and to have the chance to work with all of you.

Thanks and now here's Sheryl.

Sheryl Sandberg

Thanks Mark and hi everyone. As Mark said, we had a strong second quarter. Ad revenue grew 67% year-over-year to more than 2.6 billion. Mobile ad revenue grew 151% year-over-year and that makes up 62% of our ad revenue. We continue to focus on three key areas in investment; capitalizing on the shift to mobile; growing the number of marketers using Facebook; and building our ad products. These investments continue to generate broad based growth.

All geographies and all marketer segments performed well this quarter. Our team has a really strong belief in what we're building; the world's first ad platform that delivers personalized marketing at scale. While we believe it's still early days, we're pleased with the progress we're making and I want to join Mark in congratulating our global teams on their continued execution.

Today I'm going to focus on two of our key marketer segments; small business and brand marketers, as well as cover some of the investments we're making on the products in ad-tech front. We believe that personalized

marketing of scale can drive for all types of marketers. Just a few weeks ago, I was in India and I hosted our first India SMB roundtable. One of the entrepreneurs I met, Vivek Prabhakar built his house just a few years ago to raise the money to start his and his wife's dream business Chumbak, a company that makes India Inspired products. Facebook is Chumbak's leading marketing channel and is responsible for 35% of online revenue and 38% of their Web site traffic. Their Facebook ads deliver a 5x return on advertising spend and has helped company grow to more than 150 employees in three offices.

We have more than 30 million active small business pages, and over 19 million of these are active on mobile. We think we have a big opportunity to help SMBs like Chumbak grow their businesses, and I'm pleased to announce today that we have over 1.5 million active advertisers. We're also ramping up our engagement with this community. In the U.S., we're hosting Facebook Fit workshops in cities like New York, Chicago and Miami to help small businesses. And we're doing this globally, including forming our first European SMB cap.

We're also making great strides in our work with our larger brands to increasingly recognize how our scale, targeting and measurement capabilities can drive great results. For example, P&G and Gillette worked with us and agencies IVS and Mediacom to launch its Vector III razor to men in India. 80% of the 100 million Facebook users in India are on mobile and a majority of these are using feature phones. This was our first feature phone only Facebook campaign. It reached 60% of Gillette's target audience and generated significant lift in both message and ad recall.

As we work with brand marketers around the world, we focus on how they can leverage our technology platform to build their brands to create a story telling. We saw many great examples of this, at the recent online festival. We were excited that campaigns that make Facebook a key part of their effort took home prestigious awards.

The World Cup also provided a great opportunity for brand building on Facebook. Facebook was an important part of this global event with 350 million people joining a conversation, generating 3 billion interactions. The final was the single most talked about sporting event in Facebook history, generating 280 million interactions from 88 million people.

Brands such as Diesel, Nike, Ford and McDonalds capitalize on this global conversation. McDonalds worked with agencies, OMD, Framestore, and ARC sponsorship, as well as Facebook's Creative Shop to produce 30 videos that used french fries as players. FryFutbol recreated the most spectacular World Cup moments and ran them as videos the very next day with the french fries

acting as the players. This campaign reached 125 million people in 158 countries.

We also remain committed to investing in product development to drive higher returns for all of our marketers. Our custom audience's capabilities, which enable better targeting are been adopted quickly and are now been used by 91 Ad Age 100. Earlier this year, we launched website Custom Audiences, which enabled marketers to target recent visitors to their websites. This is likely targeting but it's even more effective because it works across both web and mobile. We're pleased with the early reaction from marketers.

We also introduced premium autoplay video ads this year. Video on Facebook helps brands extend their TV investments by combining traditional reach focus campaigns with our unparalleled targeting abilities. Today, we run about a dozen campaigns and the early data show promising results. We'll continue to roll this product out slowly and carefully. Similarly we're seeing positive early demand for marketers for ads on Instagram and we're rolling these ads out carefully as well.

In all of this we remained focused on the transition to mobile. Our recently launched audience network lets advertisers use Facebook targeting while extending their campaign beyond Facebook. This can improve the relevance of ad peoples see both on and off Facebook and we're encouraged by the early response.

Finally, earlier this summer we announced the acquisition of LiveRail, a leading online video advertising platform that enables customers like MLB.com and A&E Networks to monetize their video inventory efficiently. We have a lot to do here, but with LiveRail we're investing in tools that can improve the relevance of video ads across the web.

In summary, we're pleased with our performance and the progress we're making. We're the first platform that can deliver personalized marketing at scale and marketers are increasingly recognizing to great result so we can drive for them. Staying focused and executing will remain a major thing for us moving forward. Our teams know that our future success depends upon our continued acquisition and our plan is to stay focused.

Thanks. And now here is Dave.

Dave Wehner

Thanks, Sheryl. And good afternoon everyone. Q2 was a good quarter for us across our key operating and financial metrics. We generated strong revenue growth in operating margins and delivered \$872 million of free cash flow and

we continue to make investments to drive our core business, as well as to support our long term strategic priorities.

Let's start with a review of our network. We are executing well on our ongoing mission to connect everyone. 829 million people use Facebook on an average day in June, up 130 million from a year ago. This represents 63% of the 1.32 billion people who used Facebook during June.

Mobile continues to be a strong driver of our growth with over 1 billion people using Facebook monthly on mobile. At the same time we're enabling more ways for people to connect and share beyond the core Facebook app. For instance, both Instagram and Messenger have each passed over 200 million MAU and continue to grow nicely.

Turning now to the financials, total revenue in the second quarter was 2.9 billion up 61% or 59% on a constant currency basis. Total ad revenue was \$2.7 billion, up 67% or 65% on a constant currency basis. Ad revenue growth was strong around the world with each of our four geographic regions growing by over 60%. Mobile ad revenue was approximately 1.66 billion or 62% of ad revenue, compared to approximately \$660 million or 41% of ad revenue last year.

Desktop ad revenue was up 8% year-over-year. In Q2, the average effective price per ad increased 123% compared to last year, while total ad impressions declined 25%. The decrease in ad impressions continues to be driven by the shift towards mobile usage where people are shown fewer ads compared to desktop.

The increase in the average price per ad was primarily driven by an increase in the percentage of our ads being served in News Feed. The price volume trends were generally consistent across all four reported geographic regions.

Total payments and other fees revenue was \$234 million up 9% versus last year. As we have noted in the past we believe the more meaningful comparison that better reflects the organic growth rate of the payments business, comes from looking at payments volume from games specifically, which was up 1% in Q2 versus last year.

Our current games payment revenue comes entirely from desktop usage and we are seeing declines in the number of people using Facebook on desktop, a trend that will make growing this business challenging going forward.

Turning to expenses, our Q2 GAAP expenses were \$1.5 billion, up 22%, and our non-GAAP expenses were \$1.2 billion, up 18%. Note that cost of revenue grew 2% on a GAAP basis and 1% on a non-GAAP basis, mainly driven by unusually high expenses in 2013 related to the transition out of

certain leased data centers. This flatness in cost of revenue was the primary reason overall expenses grew relatively slowly.

Operating expenses excluding cost of revenue grew 33% on a GAAP basis and 31% on a non-GAAP basis. We ended Q2 with 7185 employees, up 36% from last year. Our Q2 GAAP operating income was \$1.4 billion, representing a 48% operating margin, up from 31% last year and our non-GAAP operating income was \$1.7 billion, representing a 59% non-GAAP operating margin, up from 44% last year. Our GAAP and non-GAAP tax rates were 43% and 36%, respectively. GAAP net income was \$791 million or \$0.30 per share, and non-GAAP net income was \$1.1 billion or \$0.42 per share.

In Q2, we spent \$469 million on CapEx and generated \$872 million of free cash flow. We ended Q2 with approximately \$14 billion in cash and investments. This excludes the impact of the Oculus acquisition which was closed earlier this week and included an approximately \$400 million cash payment.

Now looking forward, let me start by noting that the forward-looking comments I'll share today for 2014 include the impact from the recently closed acquisition of Oculus, but exclude except where otherwise noted the impact from WhatsApp which we continue to expect will close later this year.

In terms of expenses, we expect that our total 2014 GAAP expenses, including cost of revenue and stock compensation, will likely grow in the neighborhood of 30% to 35%, and that our non-GAAP expenses, including cost of revenue but excluding stock compensation, will grow at a similar rate. These rates are slightly lower than our prior expectations due to the efficiencies in areas like cost of revenue and G&A.

However, we believe that we are still in the early days of building out all of the services to maximize Facebook's impact on the world and we intend to continue to invest aggressively in people, products and infrastructure in the second half of 2014 and beyond. Though it is premature to give a specific outlook for 2015 expenses, I wanted to note that we expect significant stock-based compensation and amortization expenses, as well as substantial incremental operating costs related to the acquisitions of Oculus and WhatsApp. This will add to our overall expenses in 2015 and subsequent periods. These costs will be incremental to core Facebook expenses, which will continue to grow significantly in 2015 as we ramp investments in people, products and infrastructure.

For taxes, we expect GAAP and non-GAAP rates for the rest of 2014 to be similar to our Q2 rates, although these could vary widely depending on our international revenue and expense mix, and other factors, most notably the

impact from acquisitions, including the expected closing of WhatsApp later this year. We continue to anticipate that 2014 CapEx will be approximately \$2 billion to \$2.5 billion. We expect shares outstanding to grow from around 2.6 billion at the end of 2013 to approximately 2.9 billion at the end of 2014, again assuming WhatsApp closes by the end of the year.

Turning last to revenue. As we saw in Q2, our year-over-year growth rate declined from 72% in Q1 to 61% in Q2 or 59% on a constant currency basis. This is consistent with our comments on the Q1 call when we indicated that over the course of 2014, the year-over-year growth rates in revenue would decline meaningfully as the comps became more difficult. We expect this trend to continue over the course of the second half of the year.

While we are excited about the long-term potential of our app initiatives like Instagram, autoplay video, and the Audience Network, we are still in the early days of building these businesses and expect their revenue contribution to remain small in the near term. We remain optimistic as ever about the long-term opportunity to grow revenue by improving the quality and relevance of our ads and increasing the value we bring to marketers through our products, tools and technologies.

In summary, we're very pleased with our overall performance in Q2 and in particular the continued growth of our mobile audience, the strength of our ads business and the investments we're making to build long-term shareholder value.

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

Question-and-Answer Session

Operator

We will now open the line for a question-and-answer session. (Operator Instructions) Your first question comes from the line of Eric Sheridan with UBS. Please go ahead.

Deborah Crawford

Please go to next question.

Operator

Next we have Heather Bellini with Goldman Sachs. Please go ahead. We have our question from Eric Sheridan. Your line is open. Please go ahead.

Eric Sheridan - UBS

Sorry about that. I don't know if you heard the question. But Sheryl, one on sort of Audience Network and LiveRail. Maybe you can give us a little better sense of the depth of the conversations with advertisers and what that might do to the platform longer term 2014 and beyond in terms of broadening out Facebook's advertising effort? And second question Dave, on the Oculus and WhatsApp, is there any way to get a sense of employee counts at the companies or the pressure that we might see from OpEx going forward? Thanks.

Sheryl Sandberg

So I'll start. One of the goals we have, we talk about in all of these calls is to make ads more relevant for people and marketers, and increasingly with the Audience Network we have a goal to do that for publishers as well. Video is really important. It's one of the fastest growing ad mediums out there in both desktop and mobile. So LiveRail has a leading online video advertising platform and we think we can use it to effectively expand video ads to marketers and to publishers outside of Facebook and offer greater audience reach and ability to [indiscernible] video advertisers.

When you look at the Audience Network, we're still in really early days and we only have some publishers in our network. But we see this as an opportunity to provide greater reach for Facebook marketers and developers. Again, to improve the relevance of the ads people see both on and off Facebook.

Dave Wehner

Thanks Eric. On Oculus and WhatsApp, we're in -- very much in investment mode on our overall business and we expect to continue to ramp investments in the core business through 2015. And like I said, we'll be layering on top of that costs related to Oculus and WhatsApp. But we're not getting into more specifics on the exact headcounts on those. But we believe those are significant opportunities in the long run and so we're going to be investing aggressively accordingly.

Operator

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

Heather Bellini - Goldman Sachs

Two quick questions from me. First would just be, if you could share with us any qualitative commentary about the breadth of mobile ad revenue. There is always a lot of debate back and forth about how big mobile app installs

are. And if there is anything you could share with us about the breadth of these -- the breadth of mobile has kind of been changing over the last year or so? And then the follow up question would just be related to; how your conversations with advertisers are changing as people start to think collectively about their TV and video budget together. I'm just wondering if you're starting to see your conversations with big TV advertisers start to change somewhat over the last six months or so? Thank you.

Sheryl Sandberg

So when you think about our mobile ads, and I'm really glad you asked this question. I do think sometimes people think that mobile app install ads are all of the revenue or a great majority of revenue and they're not. They're only part of the mobile ads revenue. Our mobile ads revenue is pretty, it's broad based. We have large brand advertisers, small SMBs, direct response advertisers as well as developers using our mobile ads. The mobile app install ads, which are run not only by developers but also by large companies that want to get people to install apps are growing. They remain a good part of our mobile ads revenue and we're excited about the opportunities there. But we see our opportunities in mobile ads as much broader than just installing apps.

So the second question, I do think one of the things that's happened in the last really year, year and a half on Facebook, is people understanding how strong the creative opportunity is. We've built out the technology platform and made our product investments and we're really created particularly with the move to mobile and our ads on News Feed, an opportunity to do great creative story telling. A great recent example is the progressive baby ads if you've seen them. They're really engaging and really fun, but they're making a really important point, which is people should be buying their own insurance, but the ability for them to do that ad is based on the technology we created and also the great work they've done with Arnold Worldwide, their agency on the creative part.

And so I think for a long time people have thought TV whisper creative storytelling and online ads work for more targeted text based results. And I think we're seeing that change, which means that the way people approach TV, they'll also approach Facebook and are starting to, which makes those budgets work much better together.

Operator

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

Douglas Anmuth - JPMorgan

Two things I wanted to ask. First Mark has been talking -- it was on your blog about testing a buy button within the platform. So I was hoping you could talk about how important you think commerce is to Facebook going forward and then perhaps also payments as well. And then secondly Sheryl, you mentioned some of the major brands that advertised during the World Cup. Do you talk about how you get the follow through from those brands, now that that major event has passed and how you keep those ad dollars on Facebook? Thanks.

Sheryl Sandberg

So, on the buy button, we launched a small test in the U.S. only, which enables people to hit a buy button and on pages or in page post ads on Facebook. It streamlines the process of buying from our clients. No one is buying from us. We're just streamlining the process of buying from our clients. I think commerce is really important and is a growing important part of our business as all marketer segments are growing. But I don't think people should confuse that with Facebook selling things directly. The more people buy online, the more people buy things they discover through their mobile phones, the more people discover things from a News Feed and go on to purchase, the more important we are in driving e-commerce and I think we are increasingly important. That doesn't mean we're going to or have to sell products.

Mark Zuckerberg

Yes, and I'd just add to that because some of the question was about payments that we will clearly do work in payments to accept payments for advertising and on platform and other things that we do. But just because we will do that, it doesn't -- we still basically view ourselves as a partner to other companies in the payment space rather than trying to compete directly for that. Our main business is advertising and I think we're mostly, to the extent that we do payments, it's going to be supportive to that. I wanted to make one more point, just related to that because I think some of the questions around payments are connected to what we're planning on doing in the other apps outside of Facebook. So things like Messenger and WhatsApp over time, when that closes and Instagram, I really do just want to emphasize that there is a lot of work to set up the foundation for having a good business community and ecosystem and in those that we think it's going to be years of work before those are huge businesses for us. And I'm liking where we are now on something like the Messenger, to where we were on Facebook in like 2006 or 2007, where it was primarily consumer product at that time where you really only communicated with friends.

And a bunch of people asked us, and said that we should put ads. But before we did that we wanted to create really good organic consumer experiences for people to interact with different entities. So we created Pages, so people could interact with organic businesses. And then in order to make it so that businesses and public figures and folks would create pages, we offered Insights on different products. And we gave all those things away for free. Pages were free and continue to be free and that's partially why we have 30 million businesses today, using Pages on the platform, and Insights, we kind of give away for free in order to enable more folks to use Pages.

Then only after we had a good kind of organic interaction that people could and would want to interact with these different businesses and entities; that we really layer ads on top of that and start to build the business that we have today. So I just think it is worth emphasizing this because we've said in a number of comments that we think that some of these newer initiatives are going to ramp over time. We really do mean that. And we are serious about doing this the right way and building up new ecosystems and I think that's for some of these apps, we're just kind of build all the infrastructure that we need to make it be something that's scalable over time, rather than trying to have this be an impact that you will notice in the next, I don't know, short-term period of time.

Sheryl Sandberg

To the World Cup part of your question; brands certainly use the World Cup and big events like this to launch things as they continue to as ad campaign. They also have other big events that come along as well as their own events around product launches. And so we think, obviously not every day is a World Cup, but there are lots of opportunities throughout the year and through the product cycle to work with brand advertisers in big ways.

Operator

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

Ross Sandler - Deutsche Bank

I have one question for Mark on the product side and then one for Dave. Mark, so App Links just launched, if you go out a few years, how much do you think something like deep linking could increase engagement or ad effectiveness for Facebook and for those 1 billion links that you have up and running already, what are you seeing in those early tests? And then Dave, we know you don't breakout the price versus volume metrics for Mobile, but just directionally could you give us some color on how the ad-impression growth in mobile compares with the 31% BAU growth in mobile.

Mark Zuckerberg

Sure, so I don't have much color that's useful to share here on App Links. It's still early. People have marked up a bunch of apps with this metadata, that allows us to search for it, but Search for Facebook is going to be a multiyear voyage and there is just so much content that is unique to the Facebook ecosystem that we can answer questions for you that really no other service can. Just like the other day I was curious about finding out which of one of my friend's friend, like at a company. And it's like I don't know any other service where you can just go do that query but on Facebook you can and the secret to this is going to be basically just over a long period of time indexing all of the different content that's on Facebook in every different way.

So we started off with people. There's obviously a need to be able to find people in order to use the product and add friends and just have our core kind of ecosystem work but we're indexing more into connections and now we're getting into more of the content and it's a huge amount of contents. I think there was more than a trillion posts, which some of the search engineers on the team like to remind me is bigger than any web search corpus that's out there. But that's just kind of one part of the data, and we're going to keep on doing more and more. We're going to start of focusing on stuff that's unique to Facebook, that you couldn't really answer those questions elsewhere.

App Links by definition of being outside of Facebook are not going to be unique to Facebook. So we'll get to that overtime. I think it will be a valuable part of the ecosystem. But honestly we're mostly interested in that to enable value for other developers and pushing distribution to them than we are for our own search. It's going to enable interesting ways for a developer to be able to make a set of people in their app, can share content on Facebook and then link directly to the right part of the app, and enable some engagement ads. So that way a developer can say a person was using my app and they were going to buy something but they dropped out of the checkout flow. So we're going to have an ad that helps them link right back to the checkout flow, so that they can complete their conversion. And you want deep linking to be able to enable things like that but it's going to take a while for it to play out with search.

Dave Wehner

Yes, and Ross on your question on mobile ads. Mobile BAU is ramping nicely, 39% growth and we're seeing it grow nicely across all of our geographic regions. Of course mobile ads are ramping as well. In terms of pricing we don't break it out but on the reported pricing trend, as I was, as I think I

made clear, the 123% increase in price was driven by a mix shift with a higher percentage of News Feed ads. And new feed ads are really effective for marketers and that includes mobile News Feed ads as well. They deliver a lot of value for marketers. That's why they're getting a higher price in the auction, because the price of ads really correlates to the value that they create. And we continue to focus on making those ad units better and better, more relevant and targeted for the people who use Facebook as well as for marketers. And we're seeing good results. Marketers are getting good ROI and they're coming back and spending more with us. So we're pleased about all of that.

Operator

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

Justin Post - Merrill Lynch

I'd like to follow up a little bit on the ad pricing, obviously up 122%. Sheryl maybe you can comment a little bit about the organic growth for like for ads there? And do you see opportunities to continue to see nice pricing growth as you look out the next couple of years? And then as you think about the new ad formats, video and other things, would you think that could continue to drive pricing higher, meaning new ad formats could drive even more value than the existing ads that you have on Facebook? Thank you.

Dave Wehner

Justin, its Dave. Just following up on that, in terms of the pricing as I said, it's really about the mix shift towards the News Feed ads is what's driving the overall reported pricing trends but we are focused on making our ads all better and driving better returns for our marketers. And we see that reflected in the price. There's other things, for instance. We're making our right hand column ads more effective by changing the format of those. Those will be higher value to our marketers because they'll drive more engagement. And it will -- but there'll be fewer of them. So that will impact pricing.

But everything that we're doing is about trying to drive more value for our marketers, as well as trying to drive more relevant ad experiences for the people who use Facebook. And if we're successful in doing that, we'll drive ROI for the marketers, we'll drive good experiences and we'll get good pricing.

Operator

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

Mark Mahaney - RBC Capital Markets

Thanks. Two questions please. Anything you could share with us with regards to China and efforts to develop more of a presence there? And then maybe a follow up question on David Marcus coming over and somebody with a huge payments background running the Messaging product, it's kind of like hiring -- signing Messi up to the Miami Heat, like it's little of an odd transition. Are we looking at it wrong? Is there any particular reason why he wouldn't be more focused on payments? Thank you.

Sheryl Sandberg

So I'll talk about China. Our mission is to enable everyone in the world to share and connect. And so, we've been studying and learning about China for a number of years and we remain very interested. We are seeing Chinese based companies use Facebook to reach the global audience and we are -- we think we have an important opportunity just with their export market and we're focused on that for now.

Mark Zuckerberg

Yes, and I mean on messenger and David, I think he is just a real talented product generalist. He's done a number of different things, including in his past he ran and built a messaging company. Most recently clearly he ran a very important company and I think was pretty successful in helping get really good results there. Messenger will have -- over time there will be some overlap between that and payments. But I guess what I'm just trying to say is two things. One is, the payments piece will be a part of what will help drive the overall success and help people share with each other and interact with businesses. But we're really focused on the interactions overall, rather than the mechanism and David shares that view.

And the second thing is just that there's so much ground work that we need to do in order to make it so that people are communicating with businesses and public figures and entities in these other apps that we're building, which is part of the business ecosystem. And I really can't underscore that enough that we have a lot of work to do and we could take the cheap and easy approach and just try to put ads in or do payments and make some money in the short term. But we're not going to do that. So to the extent that any of your models or anything reflects that we might be doing that, I would strongly encourage you hereon to just that, because we're not going to and we're going to take time to do this in the way that we think that's going to be right over multiple years.

Operator

Your next question comes from Arvind Bhatia with Sterne Agee. Your line is open.

Arvind Bhatia - Sterne Agee

Just a quick question on WhatsApp. I realized it hasn't closed yet. But can you give us any indications to us on kind of the user trends and engagement, et cetera? Sheryl you mentioned India where we see a lot of usage coming out of there for WhatsApp in particular?

Dave Wehner

No, the deal hasn't closed. We have nothing to say.

Operator

Our next question comes from Neil Doshi with CRT Capital. Your line is open.

Neil Doshi - CRT Capital

Sheryl, I think attribution it could be a very big opportunity, especially for local businesses to help them realize ROIs. People going from online to offline. With 30 million businesses now on Facebook, how are you helping those businesses realize the online to offline conversation to Facebook, to drive more dollars going to local businesses? Thanks.

Sheryl Sandberg

I agree strongly that this is a huge opportunity. Our goal with all of our clients, from the biggest to the smallest is to drive their business results and as usually selling a product, sometimes online but often in stores. We've done a lot of work over the last year to measurement. We talk about measurement in all of these calls and that's because investing measurement and connecting not just some online to online, but online to offline is super important. Because that we can prove those results to our marketers large and small, they'll continue to invest.

We think we have a real advantage here, that we have real identity. We have real identity across the desktop and across mobile. And we have found ways, in very privacy protective ways to work with third parties -- third party users of data to connect offline sales to online ads and those investments remain a very big focus for us.

Operator

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

Ken Sena - Evercore

So you mentioned over 1 billion users, 80% of app developers use the Facebook login on iOS and Android. When we think about Facebook as a platform, can you provide any stats on the number of developers who are starting to build their experience on Facebook? And then how do they need to be to see things like app linking, data formats, auto play video or other? Thanks.

Mark Zuckerberg

We've shifted to this model on mobile where developers aren't really building their apps inside Facebook, right. So we're not an operating system. We had a little bit more of this dynamic with Ken, just on desktop, but now we've shifted the strategy to helping developers with three things, build, grow and monetize their apps. And we have a number of services that developers can plug into their apps to help out with all three of those. So for example we have -- and for helping people build their app, we do things like login and we have services like parse that help developers build apps more easily. That stuff is all great for helping folks build social apps in a way that's faster than they could have otherwise.

In terms of growth, I think we offer tools like sharing and messaging that people can enable. Our developer can enable their users to be able to organically spread the app. We also have things like app installs and engagement ads that make it so that developers and pay to increase that. And then on the monetize side, we are rolling out the Audience Network and we have -- and then I guess on canvas we have things like payments to help developers monetize and that's an increasing focus as well and Audience Network is new and it's getting started. So it's -- again it's one of the things that will be pretty slow for a while but we really want to do a great. But that's going to be an important part to this as well. So I think that's kind of how you want to think about developers. And right now we're really proud about 80% of the top developers, the value and touching a part of our platform. We obviously want to get the last 20, but we're excited about that the progress so far.

Sheryl Sandberg

And in terms of those developers using our different ad products, as we say we roll out slowly and slowly. Usually we pick a handful of advertisers to work with us, certainly what we've been doing on autoplay video ads. But in time our goal is to make our ad products available to all of our marketer segments and that's what we'll work on. So over the long run, any

developer, any small or large business, whether they're using other parts of our platform or not, would be able to purchase any type of our ads.

Operator

Your next question comes from Brian Nowak with SIG. Your line is open.

Brian Nowak - SIG

I have two. The first one is on the video ads. You mentioned it's the early days on video advertising and just wondering, if you could talk to some of your early learnings, what you're pleased with and where you see areas for improvement and which metrics you're gauging to determine when to undergo a broader roll out. And then secondly on the -- I think you mentioned the larger higher quality LiveRail desktop ads. There has been some changes in experimentation around that inventory. How does the advertiser receptivity bend to those ad units compared to the old LiveRail and where are those dollars coming from? Is that new dollars to the platform or are they are shifting from old sponsored stories or LiveRail. Thanks.

Mark Zuckerberg

So I'll talk about video and then Sheryl can answer on the right hand column. The biggest thing that we want to make sure is that quality is really good as we roll this out and that's going to be the same on all of these different initiatives. And one of the reasons why we're optimistic about video ad is that -- in autoplay specifically is the format for both organic and paid content is that you're scrolling through a feed and you -- if the content catches your eye and you like it, then it's playing and it's loaded and you can just easily continue watching it or otherwise the person has complete control, and if they don't like it, they can just keep on going through it. So the content has to be really good and we think that that's going to be a real high quality experience.

There are still a number of things that we really want to prove and make sure that we're doing well here. We want to make sure that when people are see an autoplay video, that's not only paid content. We want a lot of that to be organic content as well. So we're trying to ramp up the amount of public content and content that people share at that same time as we're ramping up on the autoplay video ads.

We also want to make sure that this doesn't consume a lot of people's data. So we're just being really careful about how we handle that and getting that really right across different markets, that's going to be a different thing that we want to be really sensitive to. So it really just -- in a word this all comes

down to quality and we're more focused on just making sure that this is the right and best thing over time than something in the near term.

And that I think is a theme of a lot of the areas that we've talked about, whether it's new apps that we are building, things like Messenger or Instagram and what we're doing there, working with Audience Network, which we just announced or video ads.

There's just a lot of things that we're super excited about and obviously will talk about them publically because we're working with partners and we're excited to talk about them here as well because we do really think that these are going to be great things to help build businesses overtime. But we want to make sure that we don't get ahead of ourselves because these things are early and quality is the most important thing for growing this the right way overtime.

Sheryl Sandburg

On the right hand column redesign; the redesign was driven by making the ads more consistent with News Feed which results in fewer but larger ads. But they just don't come from any one place and I think when you think about Facebook's growing part in the ad ecosystem, you really have to think about ad dollars shifting online as the majority of the driver of budget shifting and ad dollars coming on to mobile. We are pleased that we see higher engagement rates from the people who were shown in new ads compared to the old, which makes us optimistic that these are more valuable.

Operator

Your next question comes from Brian Pitz with Jefferies. Your line is open.

Brian Pitz - Jefferies

Maybe a question in a different direction regarding privacy and maybe you could just walk us through your current thoughts. The reason I asked is because Facebook recently introduced the anonymous login product at F8 this year and new services like save or hidden from friends unless users specifically opt in, can you just give us a sense, is this kind of a change of a strategic shift in thinking or tone with regards to privacy? Thank you so much.

Mark Zuckerberg

This is - it's a really important question, I think somebody is misunderstood about Facebook. One of the things that we focused on the most is creating

private faces for people to share things and have interactions that they couldn't have had elsewhere. So if you go back to the very beginning of Facebook, we're more than 10 years. There were blogs and things where you could be completely public and there were emails right. So you could circulate something completely privately.

So there was no space where you could share with just your friends and have that -- it wasn't a completely private experience, but it's not completely public and that it's 100 or 150 of the people that you care about. And creating that space, which was a space that had the kind of privacy that no one had ever seen before was what enabled and continues to enable the kind of interactions and the content that people feel comfortable sharing in this network that don't exist in other places in the world.

So we're comfortably looking for new opportunities to create new dynamics like that and open up new different private spaces for people where they can then feel comfortable sharing and having the freedom to express something you otherwise wouldn't be able to. It's one of the reasons why I'm personally so excited about messaging. Because like right now I think at some level, there are only so many photos that you're going to want to share with all of your friends. We still think that there's more to do there but it's like the amount of messaging and how quickly we see that growing, it's crazy. Because like there is just a lot more that people want to express and that they need the tools to express with smaller groups of people, not just one person at a time but smaller groups as well. Things like anonymous login totally unlocks different behavior. So how many times would you want to sign in to an app but you don't necessarily want to share a lot of information with that app but if you can do it anonymously, we think that can unlock a lot of different interactions and experiences that people want to have. So we do our jobs as like very fundamentally providing people with these spaces and tools, which I think is very different from how a lot of people think about what Facebook is but it's an important thing to think about how we do our product development.

Operator

Your next question comes from Colin Sebastian with Robert Baird. Your line is open.

Colin Sebastian - Robert Baird

I have a couple of questions as well. First on mobile advertising and ad loads, just curious what you are seeing in terms of the ad load thresholds? Is that you are at the point now where the relevancy and quality of ads means that you can take that up perhaps a little bit? And then secondly on

Oculus and Virtual Reality applications, how should we think about the pace of development of this technology and the potential integration with Facebook's applications? Thank you.

Dave Wehner

I can take care of the mobile ad load question. So ad load is really one of dozens of factors that we focus on. Others are of course the quality, the relevance and then the prominence of the ads. And we monitor the sentiment and engagement of people, engaging in News Feed and we're really pleased with the strength of sentiment and engagement as we've ramped up News Feed apps and we feel like we're in a good position, given where we are with that to continue to grow the advertising business, while driving good user experience. So we're in a good place on that.

Mark Zuckerberg

I can talk about Oculus. So we're really excited about this the acquisition just closed earlier this week and we're really excited to welcome that team. They're extremely talented and they've pulled off something that people have been talking about for a really long time and now it's possible, given the technology that this team has developed. And this hits on a different part of our strategy, which -- the way that I organize my remarks every quarter are around these 10 year goals and themes that we have for the Company, connecting everyone, understanding the world, helping to build the knowledge economy and these future platforms. So when I'm talking about how I think things like the businesses that we're talking about are further out than you think, I think that this stuff is actually even further out than that.

But there are huge opportunities to build the next generation of computing platform. When mobile was getting defined we were basically just getting founded, in 2004. The first Smartphone came out and 2003. And we have mostly been a company that has played on top of the different mobile foundations that other companies have built. And one of the things that I care really deeply about on some of the tenures arc for the company is having a different relationship to whatever the next set of computing platforms are and investing accordingly now to make sure that when the next set of computing platforms get defined, we can help define what the next generation of computing is going to be.

So I think virtual reality, augmented reality, vision, some of the AI work that we're doing, is all going to play into this in an important way. And I just think while I was emphasizing that we're early on some of those businesses and we're not going to rush those. The flip side to the coin is to emphasize

that we're also going to spend a lot and invest very heavily in a bunch of these things to do it right over the long term. And so I think David pointed out that we expect to continue investing heavily and that our costs will increase. And I just want to underscore that as well, because I expect that continue to be true and it's not that we're necessarily going to go out and have a lot more new strategic priorities, but we expect to go very deep on the priorities that we have to make sure that we completely nail them all, whether it's a five year or a 10 year time frame.

Deborah Crawford

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

Operator

Your last question will come from Ben Schachter with Macquarie. Your line is open.

Ben Schachter - Macquarie

Thanks for taking my question. Mark you talked about the focus on public content. Does that include a focus on exclusive content that we should be expecting to pay for or have revenue share agreements with the content with some key public figures? Separately on Search, I think you still have a quite a large team working on it, including Search, but our greatest point, we haven't seen many changes since the original played the graph as part of the launch. So when should we expect to see those improvements and how would you rank Search in terms of with your priorities? And then finally just a quick housekeeping question; David, the D&A continues to trend down over the past few quarters. Why is that happening and should we expect that to continue?

Dave Wehner

I can take the D&A question first if you'd like. So ultimately depreciation is going to track more folks closely against the CapEx. So in the first half of the year we've been aggressively investing in the things we want to invest and that includes infrastructure. So CapEx is up 40% in the first half of the year. There are some investments that we're making notably in the Iowa datacenter, also the new headquarters we're building where those facilities have not gone into service. So they're not hitting depreciation yet. So, we're making the big investments in CapEx that will ultimately flow through in Depreciation. So I think in short the answer to your question is we'll see depreciation come up as those things come online.

Mark Zuckerberg

And I guess I can answer the other. So on public content, we actually do get a lot of exclusive content. We don't pay for it. But I mean so -- this week for example I think Shakira hit her 100 million fans moment on Facebook. And part of the reason why some of these public figures and political leaders and folks have such big following is because they're constantly providing insight into their lives and unique types of contents that other folks -- that you can't get anywhere else. And there is a format that I think make sense for Facebook. It's not and you're not going to come to Facebook to watch a movie or watch a whole TV show. That's really long form stuff. But I mean in the modes that we have today in our service that kind of attraction is the best place for a number of types of content like this that we're starting to see that we get.

So we're mostly focused on driving success for our partners, where they are news organizations that are publishing content that people share or public figures and individuals who are engaging directly on Facebook. Our view is that the more success in distribution and engagement we can drive for them, the better the content and the quality that they're going to invest in building for Facebook. And types of search, I think -- I mentioned in my opening remarks that this quarter I think for the first time we are over on average 1 billion searches a day, which is awesome and it's something that we're really proud of and have worked a lot on, especially given that we generally found that people search a little bit less on average on mobile. So we went through a period where in order to have that increase, we had to like do some really good work and make it a lot faster and improve ranking and do a lot of the basic things that needed to get done.

There is just so much more content that needs to get indexed. So if you want to go find that Shakira video that I was just talking about, I don't know if today the product fully delivers on that but it will soon and in the next six months we're going to be able to do that and then if we do well and then a year later we're going to have more content in the system and be able to index that better.

So it's an ongoing thing. There is huge potential. There are a lot of questions that only Facebook can answer, that other services aren't going to be able to answer for you. We're really committed to investing in that and building out this unique service over the long-term. And I think at some point there is going to be an inflection where it starts to be useful for a lot of use cases. But that may still be years away. But we're just committed to doing this investment and making this right.