

## **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 First Quarter 2015 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.  
[Operation Instructions]

Ms. Deborah Crawford, Facebook's Vice President, Investor Relations, you may begin.

## **Deborah Crawford - Director-Investor Relations**

Thank you. Good afternoon, and welcome to Facebook's first 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-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 website at [investor.fb.com](http://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 us today.

This was a good quarter and a good start to the year. We continue to grow the size and engagement of our community, now with 1.44 billion people using Facebook each month and 936 million people daily. We continue to see strong growth in daily engagement around the world, including in our most engaged markets. On mobile, nearly 1.25 billion people now use Facebook

every month, 240 million than a year ago, and we now see more than 1 billion mobile searches every day.

Looking at our business, we continue to achieve impressive growth. Total revenue grew by 42% year-over-year, and advertising revenue grew by 46%. Mobile now accounts for 73% of our ads revenue. These results show that we're making progress in our mission to connect the world and we're executing well against our priorities.

But this quarter also shows how Facebook is continuing to make progress for the years ahead. Facebook has evolved from a single blue app on your phone into a family of apps. Now, many of these apps are reaching a global scale. More than 1.4 billion people use the core Facebook service, 800 million also use WhatsApp, 700 million use our Groups product, 600 million use Messenger, and on Instagram, there are more than 300 million active members of the community. We're building this family of apps because we want people to be able to share whatever moments they want with all the different sets of people they care about. Over time, we expect people to share richer content with an increasing frequency so we want to continue developing new and better tools to facilitate this expression.

So with that in mind, let's talk about our efforts over the quarter. First, we're working to help people share and connect with all the things they care about today. An important part of our approach is helping our community to connect around important public moments and personalities. Facebook is the largest community of sports fans in the world, with 650 million people connecting to sports pages. For this year's Super Bowl, more than 65 million people generated more than 265 million interactions on Facebook, the highest level of conversation we've seen for a Super Bowl to-date. For the Cricket World Cup, there were more than 700 million interactions by 53 million people, which shows the strength of the global reach of our community.

We're also making good progress with video. We're very pleased with our growth here, and this quarter we reached a new milestone of more than 4 billion daily videos views. We also launched an embedded video player that allows people to watch Facebook videos across the web, and more than 80,000 videos have now been embedded on third-party websites. Spherical videos are going to be supported in News Feed later this year, allowing you to change your viewing angle for a more immersive experience. Supporting new types of content like this is an important part of preparing for the future of how people want to share.

Now, another part of our strategy is helping people connect with businesses. This quarter, we announced that there are now 2 million advertisers on

Facebook. This is an important milestone for our community, and we're encouraged that so many businesses are finding value on Facebook. We continue to focus on innovation in our ads business, and Sheryl is going to talk a bit more about that in a moment.

Now, here's how we're working to develop our family of apps so we can give people more options for sharing in different ways. In the future, we expect that people are going to want to share content with their closest friends at an even greater frequency than they do today, so messaging is a big priority for us. Across the Facebook family of apps, our efforts have a lot of momentum. On average, more than 45 billion messages are sent every day. With voice calling, we're also starting to make some good progress. This quarter, we started rolling out Voice over IP calls on WhatsApp to let people call friends for free around the world. And meanwhile, Messenger already accounts for more than 10% of mobile VoIP calls globally.

With WhatsApp, we continue to be pleased with our growth and the team remains very focused on building new features to serve their community and expand. For Messenger, this has been a particularly busy quarter. We launched the Messenger Platform, which allows people to use creative new apps to have richer conversations. We also began rolling out payments on Messenger to give people an easy, secure way to send money to their friends. And we announced a new way for people to communicate with businesses using Messenger. We're really excited by the potential to build Messenger into a service that helps people to express themselves in rich new ways and to access useful services.

With Instagram, our growth remains impressive, and this quarter, we reached a new milestone of more than 200 million daily actives. Growth in Asia, Europe, and Latin America is particularly strong, with our community growing in some countries by more than 100% year-over-year, including Japan, South Korea, and Indonesia. Combined with an average 21 minutes a day that people spend on Instagram, this is a good sign of this community's continuing and growing strength.

Now, let's talk about how we're working with developers. Last month, we held F8, our annual event for the global developer community. Creating the future of sharing isn't something that we can do on our own, but by supporting developers, we can deliver more apps and experiences for our community. At F8, we presented new tools to help developers build, grow, and monetize their apps, including better sharing experiences from apps to Facebook and new analytics to help developers better understand how people are using their services. More than 30 million apps and sites have been built using Facebook developer tools, and last year we drove more than

3.5 billion app installs. We think these improvements are going to create a lot of value for our community.

All right. Finally, let's talk about some of our most long-term innovation efforts. Internet.org, our effort to connect everyone in the world to the Internet, continues to gather momentum. We've now made free basic Internet services available to more than 800 million people in nine countries, including just in this quarter, launching in India, Colombia, Ghana, Guatemala, and the Philippines. More than seven million people who weren't connected to the Internet before now use internet.org to get online. And this year, we expect to connect even more people.

With our efforts in search, AI and Oculus, we're also continuing to build a new generation of Internet services that are more useful, intuitive, and immersive. And over the coming months, we'll have more to share about these.

So that's how we're thinking about innovation and the future of sharing. It's been a busy quarter. In the last few months, I've visited countries in Asia, Europe, and Latin America. In many communities, I've gotten the chance to see how the Internet is changing lives and creating opportunities for people. I've heard from people who can't wait to get access to the same tools that so many of us take for granted. We're making progress on our mission and working to accelerate towards the day when everyone in the world can be connected. Thanks to our entire community and all of our employees, partners, and shareholders for being a part of this journey and for helping to build something great.

Now, here's Sheryl.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

Thanks, Mark, and hi, everyone. Q1 was a strong quarter and a great start to the year. Ad revenue was \$3.3 billion, up 46% or 55% on a constant currency basis. Mobile ad revenue grew 82% and is now 73% of total ad revenue. Our performance was strong across all marketer segments and we're pleased with the broad-based growth across our industry verticals. From a regional perspective, we saw strong growth in North America and Asia-Pacific, while Latin America and Europe were affected by foreign exchange headwinds and macroeconomic factors. That said, we're pleased with advertiser adoption of our ad products across all regions.

Innovation drives our ads business. It's how we continually improve the quality of our ads, offer new tools to marketers, and build better experiences for the people who use Facebook. We believe that this ability to innovate will continue to drive our business. So today I want to focus on innovation

across our three strategic priorities, capitalizing on the shift to mobile, growing the number of marketers using our ad products, and making our ads more relevant.

First, capitalizing on the shift to mobile. Mobile continues to be a great opportunity for us. People continue to be highly engaged with our mobile apps. In the United States, for example, Facebook and Instagram get more than one out of every five minutes spent on mobile. As consumers shift to mobile, businesses are following, and we're focusing on helping them take advantage of this opportunity to use mobile to build their businesses.

Two new products we introduced this quarter are good examples of this. The Mobile Ads Manager app gives marketers the ability to manage their ad campaigns from their mobile devices. It's early, but we're already seeing more marketers managing their activity on mobile. We also launched a page creation tool for feature phones, which has been a big driver of page adoption in high-growth emerging markets where smartphones are less common.

Looking ahead, we believe video will play a significant role in bringing more marketers to mobile. More than 75% of global video views on Facebook occur on mobile, and we believe mobile video will become more important to marketers over time. Lionsgate's Age of Adaline premiere is a great example. To promote the film, Lionsgate targeted young women on Instagram with multiple video ads over the last few weeks. This week, since the film opens on Friday, they are retargeting the audience from the Instagram campaign on Facebook. We expect more marketers to put mobile video at the heart of their campaigns in the future and we're well-positioned to drive this shift.

Our second priority is growing the number of marketers using our ad products and we're making great progress. In Q2 of last year, we shared that we reached 30 million active business Pages on Facebook. This number continues to grow as more and more small businesses are using our Free Pages product, and we remain focused on converting these Page owners into advertisers. One way we're doing this is by providing simple, easy to use products. Over 80% of our new advertisers start with entry level tools like a promoted post or a Page like. We are increasingly focused on making sure these tools work well on mobile. We're also educating marketers on how to use Facebook more effectively. We recently launched two online training resources: Blueprint for large clients and agencies, and Learn How videos for small businesses. These efforts are paying off. In Q1, we announced that we now have over 2 million active advertisers.

Our third priority is making our ads more relevant. More relevant ads lead to better returns for marketers and better experiences for people. We're pleased with the increased adoption of our targeting tools like Custom Audiences and Conversion Tracking. In Q1, we introduced Dynamic Product Ads, which allow marketers to launch ads for different audiences. We also introduced carousel ads on Facebook and Instagram, which allow marketers to advertise for specific products. Adoption of our targeting tools and these new ad formats help make our ads more relevant.

We're also focused on insights and measurement. We want to help marketers accurately measure the performance of their campaigns and then apply that learning to improve their returns. In Q1, we released an ad relevance score, a way for marketers to better understand how people respond to their ads. This helps marketers test different types of creative and optimize performance. We also launched Conversion Lift, a tool that scientifically measures how much additional business was driven from Facebook ads. This is important because it shows that ads on mobile can drive sales in retail stores and via other channels.

For example, Cellbes is a women's fashion retailer in Europe. Using Conversion Lift, they proved that ads on Facebook mobile drove sales on desktop and via phone calls to sales reps at their call centers.

On the ad tech side, we're pleased with the results we're driving for advertisers and publishers. A good example of this is Cheetah Mobile. Using native ads from the Audience Network in its apps, the company is getting more than two-times the CPMs compared to other ad networks. We continue to invest in our ad tech platform. At our F8 Developer Conference last month, we made new two important LiveRail announcements that will improve the relevance of ads people see across sites, apps, and devices. We extended LiveRail's video ad platform into in-app mobile display, which will give publishers better ways to manage their ad inventory across devices. We also announced that LiveRail will give publishers access to Facebook's anonymized demographic information, enabling us to serve more relevant ads to people.

We've had a great start to the year and we're really optimistic about what's to come. Our teams are executing well, staying focused on our big priorities and continuing to innovate.

Now, here's Dave.

**David M. Wehner - Chief Financial Officer**

Thanks, Sheryl, and good afternoon, everyone. Q1 was a strong quarter for Facebook. We generated \$3.5 billion in revenue and \$1.2 billion in free cash

flow and continued making investments to position us for both near-term and long-term growth. We are pleased with the growth and engagement of our community. In March, 936 million people used Facebook on an average day, an increase of 17% compared to last year. This daily number represents 65% of the 1.44 billion people who used Facebook during the month of March.

Mobile remains the key driver of our growth. In March, approximately 1.25 billion people accessed Facebook on mobile devices, up 24% from last year. In addition to Facebook, Instagram, Messenger, and WhatsApp continue to grow, exceeding 300 million, 600 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, as a reminder, our non-GAAP measures exclude stock-based compensation and the amortization of intangibles.

Total revenue was \$3.5 billion, up 42% or 49% on a constant currency basis. Ad revenue was \$3.3 billion, up 46% or 55% on a constant currency basis. The general strengthening of the U.S. dollar in the past year had an unfavorable impact on our revenue. Had foreign exchange rates remained constant with Q1 2014 levels, our total revenue this quarter would have been approximately \$190 million higher.

Regionally, we saw strong North American ad revenue growth of 53% in the quarter, second only to APAC, which grew 57%. Europe and the rest of world revenue grew more slowly at 35% and 32%, respectively, with currency impacts leading to a significant reduction in these regions' year-over-year growth rates.

Mobile ad revenue in Q1 was \$2.4 billion, up from approximately \$1.3 billion last year. Revenue from ads served on personal computers was down approximately 4% and we continue to see overall usage on PCs decline. In Q1, the average price per ad increased 285% while total ad impressions declined 62%. 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 \$226 million, down 5% compared to last year, a trend we expect to continue. The decline was driven by the year-over-year reduction in payments revenue related to games played on personal computers.

Turning now to expenses. Our Q1 total GAAP expenses were \$2.6 billion, up 83%, and non-GAAP expenses were \$1.7 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 Q1 with 10,082 employees, up 48% compared to last year. We remain very pleased with our ability to attract and retain top-tier talent.

Q1 operating income was \$933 million, representing a 26% operating margin. Non-GAAP operating income was \$1.8 billion, representing a 52% margin. Our Q1 GAAP and non-GAAP tax rates were 45% and 35%, respectively. Q1 GAAP net income was \$512 million or \$0.18 per share, and non-GAAP net income was \$1.2 billion or \$0.42 per share. In Q1, capital expenditures were \$502 million and we generated \$1.2 billion of free cash flow. We ended the quarter with \$12.4 billion in cash and investments.

Turning now to the outlook. Let's start with revenue. The strengthening of the U.S. dollar in the past year reduced our Q1 total revenue growth rate by 7 percentage points, or approximately \$190 million. The dollar strengthened over the course of the quarter and, in the month of March, our year-over-year total revenue growth rate was approximately 10% lower than it would have been in constant currency terms. Based on this, we estimate that foreign exchange headwinds in Q2 will likely be greater than those we experienced in Q1. In addition, we expect our total payments and other fees revenue to decline on a year-over-year basis for the remainder of the year.

Turning to expense guidance. We are tightening our expense guidance range modestly based on better visibility into our annual spending. We expect that the year-over-year growth rate for total 2015 GAAP expenses will be in the range of 55% to 65%, as compared to our prior guidance of 55% to 70%. We expect that the year-over-year growth rate for total 2015 non-GAAP expenses will be in the range of 50% to 60% as compared to our prior guidance of 50% to 65%.

Our expense outlook reflects the broad range of investments that we're making in both our services and infrastructure as we continue to enhance the core experiences on Facebook and Instagram, grow our messaging products, strengthen our advertising business globally and invest in long-term growth areas like Oculus and internet.org. The remainder of our guidance remains unchanged. We anticipate our 2015 capital expenditures will be in the neighborhood of \$2.7 billion to \$3.2 billion. We 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 Q2 and full-year 2015 GAAP and non-GAAP tax rates to be consistent with the rates in the first quarter.

In summary, Q1 was a great start to the year for Facebook. We're very pleased with the growth of our community, the strength of our business, and the investments we're making to build long-term shareholder value.

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

## **Question-and-Answer Session**

### **Operator**

Thank you. We'll now open the lines for a question-and-answer session. Your first question comes from the line of Brian Nowak with Morgan Stanley. Your line is open.

### **Brian Nowak - Morgan Stanley & Co. LLC**

Thanks for taking the questions. I have two. The first one, I guess, can you talk a little about early advertiser and publisher feedback from the LiveRail in-app mobile product and what are some areas where you see potential for improvements to drive faster adoption? And then on the OpEx side, I appreciate you're tightening the range. Can you help us at all on expectations for head count growth this year and what are the biggest areas you see investing in incremental employees this year?

### **Sheryl K. Sandberg - Chief Operating Officer & Director**

So, on LiveRail, we're pleased with the performance and the changes we've been able to make. Video is obviously super important so having the ability to do – work on video across the web has been really great. And then at F8 we made two more announcements that I mentioned. What we're hearing from publishers is that this is a good opportunity and they're pleased with the extensions we're making because it can make their ad serving and buying more efficient across the platforms they use.

In terms of areas for improvement, I think there's a lot we can do. I think have you to look at our ad tech investments very holistically from Atlas to LiveRail to the Audience Network. These are all different pieces of the ad tech but what they're all working on is taking the relevance and the ability to do people-based marketing and make that available to work on Facebook

but also off Facebook. We believe that because we can do marketing to people and then measure results across what people do in privacy-protective ways, we have an ability to improve the relevance of marketing which will make it better for consumers and increase returns for marketers.

**David M. Wehner - Chief Financial Officer**

And Brian, it's Dave. Just on the OpEx question, I think the key is that we're investing in our near, mid-term, and long-term priorities, so in the near-term we're investing to grow the community, execute on the existing business, both on the product side and then the advertising and sales force side. And in the mid-term, we're building out those next-generation of services to be great businesses that reach their full potential, so that's Instagram, WhatsApp, Messenger. And then in the long-term, we're investing in areas like the next-generation computing platform, internet.org, AI.

In general, I would say our head count growth has skewed towards the R&D side because a lot of these initiatives have long-term development needs. So we've been investing there. But we are investing across the board. In terms of a specific head count guidance, I would just stick with our expense guidance. But I'd note that the 48% year-over-year does include some inorganic growth from the pickup of the three larger acquisitions, Oculus, LiveRail, and WhatsApp. We haven't lapped those at this point.

**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. One for Sheryl and one more Mark. Sheryl, I just wanted to ask you to talk a little bit more about big brands, give us a sense for what's working best in terms of products? And then also how penetrated do you think Facebook is now with some of the larger brands? And, Mark, what are the signals that you'll be looking for to tell you when it's the right time to ramp-up the advertising on Instagram more? Thanks.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

Our growth was really strong across all of our marketer segments, but we had a particularly good quarter in brands, I think driven by two things. The first is that we really have a great platform to do creative storytelling on mobile and I think we have that in a way that no one else does. Our mobile ad product is so integrated into the user experience and provides real

creative flexibility that people have a way to reach people on mobile and that's becoming increasingly important in telling the stories that drive their business.

The second thing is video. Video is exploding on Facebook, as Mark talked about, and that gives us an opportunity to do a lot of work with marketers on video. This is the first time the technology and media vertical was one of our top four verticals. And that's largely because of the use of mobile. And so that's been really a great story for us.

In terms of penetration, we work with almost all the large marketers almost everywhere in the world. But even for the largest, the largest clients we have, we are a very small part of their budget. I don't think we have any large clients, if you look at 25% in the U.S. of consumer media time is on mobile and then 20% of mobile time goes to Facebook and Instagram that would be 5% of U.S. consumer media time.

With our largest clients, even our large ones, we're not close to 5% of their spend. And so I think we have a considerable opportunity to grow, and we also expect those underlying numbers time on mobile to continue to grow.

### **Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Yeah. Your second question about Instagram and the ads opportunity there, we think about this the same way that we do ads in Facebook today. The primary goal is to increase the quality. That's our strategy for growing the business. There's more inventory that we can open up on Instagram over time because it's so early, but we're going to do that once we get to formats that are working well for businesses and that we feel really good about in the consumer experience.

And this has been a theme for our ad strategy and product development for more than a year now, maybe two years, where folks have consistently asked us what we're going to do to increase the amount of ads that we're showing. And our response has been that we're going to focus on improving the quality and relevance and that's both going to perform better for the people using our services and businesses who are buying ads. And that strategy, I think, is bearing out and we'll continue to apply it to all of the things that we do.

### **Sheryl K. Sandberg - Chief Operating Officer & Director**

One clarification, I think I said tech and media as a vertical, I meant entertainment and media that this is the first quarter that entertainment and media is one of our top verticals.

## **Operator**

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

### **Heather Anne Bellini - Goldman Sachs & Co.**

Great. Thank you. I just had two quick ones. I was wondering, Mark, I think you mentioned you're seeing 1 billion searches per day on mobile. I was wondering if you could give us an update on your initiatives here. And also when you think about Facebook kind of as a microcosm of different applications, at some point is there a plan that we will be able to search – use the search functionality to go across all the different Facebook apps that we might have installed on our mobile devices?

### **Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

So we're pretty early in this whole thing and there's so much unique content that people share in Facebook that I think that that is the clear, unique opportunity to go for first, right? I mean there's – if you think about the overall web, there's a lot of public content that's out there that any web search engine can go index and provide. But a lot of what we can get at are recommendations on products and travel and restaurants and things that your friends have shared, they haven't shared publicly, and knowing different correlations, or interesting things about what your friends are interested in, and that's the type of stuff, those are questions that we can answer that no one else can answer, and that's probably going to be what we continue to focus on doing first. And I think what you're seeing is that as we enable more use cases and as we just get a lot of the basics right around performance and bringing the mobile features into parity and beyond what we've been able to do on desktop, the volume is growing quickly.

I think on a recent earnings call we just announced that we passed 1 billion searches total so now being more than 1 billion on mobile shows some progress that I'm pretty proud of for the search team.

## **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. Maybe one for Mark and one more Sheryl. Mark, you talked about the family of apps at Facebook. As more and more people are consuming professional content, different verticals like news, sports, and video format on Facebook, how do you think about the use case

for the consumption of that content inside the main Facebook app versus maybe an even separate app for more professional content long-term for Facebook?

And then for Sheryl, appreciate the color you gave us on the evolution of targeting on Facebook. Wanted to know either qualitatively or quantitatively if you could talk a little bit about the way those ads are performing as you continue to evolve the product set around targeting on Facebook and off, in particular around Dynamic Product Ads and what that might mean for closing the loop longer term. Thanks so much, guys.

### **Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Yeah. So in terms of news and different kinds of content, I know this has traditionally been something that we've delivered a really good experience for in terms of people being able to share the content that they want, being able to get access to the content that they want, different recommendations from friends, and we've a lot more coming there, so I'm excited about that. And we definitely do see in this family of app strategy that there's so many new ways that people want to share content, and so many different types of sets of people that people want to share with, right, ranging from one person at a time and that would be messaging or small group sharing or sharing with interest-based communities or sharing with all your friends at once or sharing with public.

There are just a lot of different experience that needs to get built. And a lot of what we're trying to do is enable a number of those things through Facebook, while also building unique world-class services to enable people to share all the things they care about with all the different sets of people that they care about. So we're going to keep on doing more there. But we're happy with where we are now. We have a number of services that are reaching pretty good scale and I think we'll keep on pushing that.

### **Sheryl K. Sandberg - Chief Operating Officer & Director**

To your question on targeting and closing the loop, these are two really important pieces for what we want to do. Our goal when we work with marketers is to drive their business, and that means their products off the shelves, their services into the hands of people, and so in order to do that well, we need to work on targeting and we need to work on measurement. So with targeting, a more relevant ad is just better, it's better experience for consumers because they see something they like in their News Feed and it has a higher return for marketers.

And so we're very focused on getting more people to use our targeting tools from Custom Audiences which lets people target ads differently to their

current customers or people who they'd like to be their customers to look like audiences which enables us to identify the kind of characteristics of your current customers and then find other people on Facebook who share those characteristics so, again, the ad is well targeted. I think our targeting abilities are really second to none, and I'll share a recent example. XFINITY put out a voice guide for visual disabilities, and they did this, they did this by doing an Oscar commercial with a girl who is blind imagining what Wizard of Oz characters looked like.

Now by doing that at the Oscars, that's obviously TV and it's a very broad ad and that's because they were both showing a product but also working on their brand. On Facebook, they took that ad and showed it to movie fans, Wizard of Oz fans and also people connected to accessibility causes. That's actually pretty specific targeting that lets them hit exactly the right audience and amplify what they were doing on TV, and I think that's the kind of thing that only we can do at scale, and it shows how important targeting is.

When you think about closing the loop, you then have to add in the measurement piece because if we can connect, people seeing ads on Facebook to what they buy, in stores or in other ways, that's how you close the loop and that's why we put so much investment and hopefully so much innovation behind measurement. So conversion tracking is increasingly used, and we work with our marketers to use it even more, and we're also really excited about conversion list because that's the first product we've had which scientifically measures the additional business you get from Facebook ads. It compares test groups that see ads with control groups that don't. So whatever you're measuring in terms of conversions whether it's sales or website clicks or registrations, we can A, B test and see exactly what the impact Facebook has. I think we're still at the beginning of this. I think there is so much more we can do to make ads more relevant on Facebook and so much more we can do to measure results, and I think our future growth will depend on executing on that very well.

## **Operator**

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

## **Youssef H. Squali - Cantor Fitzgerald Securities**

Thank you very much. A question for Dave and then maybe one for Mark or Sheryl. FX adjusted ARPU growth this past quarter, it was about 35%, which is by our math about half of what it was last year and within mobile, it was about 45%, that's about a third of what it was last year. Other than tough comps, what else is driving that decline? Is it just Q1 seasonality getting

more pronounced? Is there anything else – we would have thought maybe video advertising would have had actually the opposite effect. And then what's your – maybe Mark or Sheryl, what's your experience so far with Voice over IP? What is the strategy, I guess, over time? Is that something that you can start charging for or either through maybe a subscription or is there another way of monetizing it? Thanks, guys.

**David M. Wehner - Chief Financial Officer**

Youssef, it's Dave. So on the FX adjusted ARPU growth, I would just really point to the overall revenue growth rate, that's what's driving it. So you're coming up against a bigger business last year than we had in the past. So you're seeing declining rate on that basis. So I don't think there's anything specific to ARPU, it's just a reflection of what we're seeing on the revenue front as we scale, and it's sort of as expected there.

So we're really pleased with the performance that we're seeing on the revenue front, certainly on the FX adjusted basis. We're seeing strong growth in the face of really a tough currency environment. So we're really pleased with that. We think we've got the best mobile ad product out there in the market and it's just getting better. So we're really pleased with what we're doing on the revenue front.

**Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Yeah, and in terms of voice calling, no, we're not going to charge for it just like we're not going to charge for messaging. What we're focused on doing is providing more higher quality services for free than what you could otherwise get in paying for them. And one thing that you may not know about voice calling is that by using the Internet for calling rather than the relatively low bit rate voice networks, you can actually get higher quality calls using VoIP. So one of our theories in this is that it's one of the reasons why voice calling has been a little slower to catch on is because you need the large established network of people who you know will have access to be able to receive a voice call before it, before that behavior can really take on in a big global community.

But now between Facebook Messenger and WhatsApp, which are two very broad communication networks, we're pretty confident that because of the higher quality of calling that you can get through the services that we're providing that this is going to continue growing very quickly. I mean, a lot of people still – we're just very early in rolling out and promoting it. Even in Facebook Messenger, it's been out for a little while and we're already more than 10% of the global VoIP market. And I think that that's just going to

continue growing and I'm really looking forward to getting the first stats on WhatsApp VoIP as well soon.

## **Operator**

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

## **Mark S. Mahaney - RBC Capital Markets LLC**

Thanks. One question for Mark, one for Sheryl. Mark, there's just this explosion in these messaging platforms worldwide you obviously bought into one. The growth has been greater than we would have expected, and perhaps you too. Do you – have you – has your thinking changed on the opportunity or maybe the need but really the opportunity to integrate WhatsApp and Facebook over the next couple of years because of the growth of WhatsApp to-date? And then Sheryl, you mentioned some verticals that are doing well. I was just wondering if I could ask about automotive and insurance, just a couple of verticals that have always been skewed very heavily towards TV advertising and the question is whether they've really skewed up more now on Facebook given the auto play video ad format. Thank you.

## **Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

I mean, on the messaging question, yeah, we're pretty happy with how it's all going. I think if we're going to pay \$19 billion for a company, we should have pretty high expectations for how it's going to do. So I do feel good about how we're doing, but it needs to do a lot more obviously and we're very excited about the roadmap of things that we have ahead. In terms of integrating them, no, we're not going to do that. One of the things that had been interesting, while we were watching these different services grow, was just how quickly multiple different messaging and communication services were growing at the same time, and it seemed a little bit counter-intuitive at first because it seemed like there should have been more overlap than it actually, now in retrospect looking back, seems like there is.

So you can look at countries where both services, WhatsApp and Messenger, are growing very quickly like Brazil, for example. And what you'll see is that basically people use them a little bit differently. I mean, WhatsApp is more of a clear text messaging replacement. Facebook Messenger people use to connect with people that they know on Facebook primarily. And then there are differences in the feature sets where WhatsApp is extremely utilitarian and focused on texting and now voice calling, whereas Messenger is very focused on expression and the whole set of things that fit into the tools around the Messenger platform that we rolled out at F8, communicating with



businesses now, richer tools to communicate in different ways. So I think that these are just going to keep on growing is my expectation and hope, and we're excited to kind of pursue both different products to serve the different communities.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

On the auto and insurance verticals, they're both still small which makes them good opportunities to grow. We're seeing good progress on both of them, and interestingly, insurance companies have been pretty active both on Facebook and Instagram, so we're optimistic about that.

**Operator**

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

**Paul Vogel - Barclays Capital, Inc.**

Great. Thanks. Two questions. One for Mark and one for Dave. I guess, Mark, just going back to the video question again real quick. I'm wondering, given all the noise around over-the-top and long form content and given your push in video, I'm just sort of curious as to whether or not you think Facebook can or should be a player in more studio content, professionally-driven content. And then Dave, I guess for you, just in terms of CapEx, you gave guidance for this year, but again, given sort of the ramp-up in video in search, how should we think about CapEx longer term relative to, either in absolute terms, or maybe relative to revenue growth? Thanks.

**David M. Wehner - Chief Financial Officer**

I can go first. So on the CapEx growth for this year, Paul, yeah, we are ramping CapEx, obviously, to support the initiatives that we have. 2015 is a big investment year for us, both in CapEx and OpEx. It's a little bit early to be talking about how that's going to scale going forward. But, clearly, we've got a lot of areas that we're investing in, including video, including the various other services on top of Facebook. So, we're going to be investing to deliver the best quality services that we can for our users, so we'll continue to invest heavily on the datacenter and infrastructure side going forward. But 2015 is a big investment year for us across the board.

**Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Yeah, and on video, we're excited about people sharing all different kinds of content on Facebook. Right now, a lot of what people are sharing are their social videos and content. There a lot of public figures who have pages often with millions or tens of millions of followers producing unique and really

high-quality content that they're pushing out to all their fans on the network today. So, yeah, we'll continue looking at ways to grow that and it's – the product experience that we have right now is growing quite well so we feel good about it.

### **Operator**

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

### **John R Blackledge - Cowen & Co. LLC**

Great. Thanks. Two questions. One more on video. So with the explosive ramp in video views over the last six months, could you discuss the video advertising ramp this year? And then maybe talk about the video versus static ads within the News Feed. And then the other question would be, you reference Facebook hitting 2 million active advertisers in the first quarter, and with over 30 million company pages, how should we think about the advertiser TAM for Facebook next year and over time? Thank you.

### **Sheryl K. Sandberg - Chief Operating Officer & Director**

So, to the first question, video is a big opportunity for us. Mark talked about how we have 4 billion video views on Facebook everyday and we've always believed that the format of our ads should follow the format of what consumers are doing on Facebook. So many years ago when the homepage ticker was in vogue, we never did that. And so the fact that there's so much consumer video, that gives us the opportunity to do more marketing video as well. It's still early days and we're very focused on quality and it's worth noting that not all of the revenue from video is incremental, because the video ads take the place of other ads that we would have served into News Feed. That said, we're really excited about the opportunity I talked about, increasing the entertainment and media vertical and brand marketers, particularly. But I think all marketers have the opportunity to do video, and that's pretty exciting, including SMBs who would never be able to hire a film crew and buy a TV ad. We're seeing those put videos in. Over 1 million SMBs have posted videos and done really small ad buys around them. And that's pretty cool because I don't think there are probably 1 million advertisers who have bought TV ads in that same period of time.

When you think about our marketer growth, I think we have an ability to grow both the number of advertisers who use our platform, but also the percentage of their business that we get. So 30 million small business pages continuing to grow. We have an opportunity to turn those businesses into advertisers and marketers, and that's what we've done successfully and

we're going to continue to focus on that. And we do that by building very simple ad products.

And then when you think about the percentage of spend we have, what I said before on this call, which is we only have a small percentage of even our large customers, that's true of our small customers, too. Now, there are some who spend a large portion of their budget on Facebook, but that's actually very unusual. For most people, even when they start spending with us, we're a small portion of their budget. And when you look at the consumer time we get, we are not getting the equivalent amount of time or resources from our marketers really of any size, and therein lies our opportunity to grow.

### **Operator**

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

### **Justin Post - Bank of America Merrill Lynch**

Thank you. Dave, maybe you could help us breakdown the 55% ad revenue growth a little bit. Between usage, kind of are you increasing ad loads at all? Maybe you talk about the formats or is Instagram helping at all, just a little granularity on that or maybe it's just a format shift, but just help us understand what the key drivers are and how much room you still have to go on each of these things. Thank you.

### **David M. Wehner - Chief Financial Officer**

Yeah, Justin. So in terms of the 55% revenue growth, obviously, it's mobile News Feed is what's driving it from a fundamental point of view. In terms of what the opportunity there is to drive it, it's really about increasing the relevance and quality of the ads. That's been a key part of what we've been doing, and that will just continue to be the big driver in the near- and medium-term. And we're doing that on a number of different fronts. Part of it's about finding the right format, so it's getting the video units there for the people for whom video ads are going to make sense. It's getting the dynamic products ads in front of people for people who are going to find those ads interesting and engaging. And it's really just continuing to learn more and more about the people who are using Facebook and what types of ads they interact with and the like. And so that's part of what we're trying to do across the board.

And then at the same time, we're bringing more and more advertisers into the system and that's giving us a better selection of the ads that we can serve to the people using Facebook, and that, again, improves the quality and the relevance. So the main thing that we're seeing drive this is just

improving the quality and the relevance of the ads experience for the people using Facebook, and I think that's going to continue to be the story.

I think the specific ads will be part of how we do that, but it won't be the only way. It will also be the targeting that we have and the targeting capabilities that we're doing with things like Custom Audiences and getting better and better at that. So there's a lot of different fronts that we're working on. It's hard to tease out every individual component of it. But all in all, we're really pleased with the revenue growth that we're seeing. And also, that's coupled with good engagement growth, so we're doing a nice balance of having an experience that's working well for our advertisers but it's also working really well for the people who are using Facebook.

### **Operator**

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

### **Ross Sandler - Deutsche Bank Securities, Inc.**

Great. Just two quick questions. First, on the News Feed organic reach and then, Mark, one on Apple Watch and wearables. So on the News Feed, you guys recently made tweak to kind of alter the algorithm in favor of friend-oriented content. And then on the other hand, you're also moving towards, like, hosting publisher content from New York Times and BuzzFeed and folks like that. So how are you balancing out organic reach between these algorithm changes and then whether or not professional content is hosted inside of Facebook versus coming from a third-party website?

And then the second question is, Mark, how do you view the shift to wearables with smaller screens and shorter interactions? So it looks like you guys have gotten most of the apps on the Apple Watch. Just wondering what you're doing to kind of adapt to these new smaller screens. Thanks.

### **Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Sure. So I can speak to both of those. For the News Feed question, the North Star for us in News Feed is that we want to produce the best experience for everyone who is using the app and loading News Feed to see what is going on in the world around them, right? So when it comes to – there are lots of businesses on Facebook, there are professional content producers, our main interest here is the people in the community who are using News Feed, not those guys, right? So of course we want to build tools to enable them to share their content and all of that, but we're constantly refining the algorithms in order to make it so the experience is the best for you when you open up your phone and look at Facebook and, there are a

bunch of things that are going on, we want to make sure that we're getting what you care about the most.

And we go to a lot of lengths to make sure that we're getting signals from people in our community to make sure that we're doing this correctly, in addition to the different signals that we would get from seeing people use the products. We also do a lot of qualitative surveys to see what people, what makes – what people write in that they want to see from us, what people tell us is the most important thing that they saw in Facebook today or saw anywhere in the world today and what they would've wanted to have seen on Facebook. And our goal is to just constantly refine this and make it better and we're going to keep on doing that because we think there's a lot of upside and there's a lot more that we can do.

Now, at the same time, in order to make this experience good, there also needs to be good content in the system, right, so we need to make sure that people have the tools to be able to share the moments that they care about. But if you're a professional publisher, you need to have the ability to share a version of the content that you're producing that you're proud of, that can load quickly, that can be as rich as the tools enable people to see, and we're working on a lot of different tools for that.

And you can imagine that as the tools for any of this content get better, people taking photos, newspapers, writing news articles, advertisers, putting out ads for content that they want to sell, the better that content gets, the more people are excited to see it and then that informs the ranking in what the community qualitatively tells us that they want to see from us over time as well. So it's just a constant cycle on that. What was the other question?

**David M. Wehner - Chief Financial Officer**

The watch.

**Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

Oh, the watch.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

Wearables.

**Mark Elliot Zuckerberg - Chairman & Chief Executive Officer**

You know, I haven't actually spent that much time with this so far so, I mean, I mostly just want to congratulate Apple on shipping something that seems like a pretty amazing piece of technology and work, and we're proud

to be supporting. And I know that we have a bunch of apps, and it's a space that's going to be really interesting and we're going to watch closely and build what our community wants us to.

### **Operator**

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

### **Brian J. Pitz - Jefferies LLC**

Thank you. Two more quick questions on video. Roughly, what percentage of videos are currently monetized via ads and where do you see it headed over time? And as you look at the early video ads on the platform, how is pricing comparing to other ad formats? Thanks.

### **David M. Wehner - Chief Financial Officer**

I can take this. I mean, in terms of – in terms of what percentage of videos or ads, we're not breaking that out. I think what we said was that we're really pleased with the consumer adoption we're seeing. That's kind of the fundamental table stakes that need to be there and that's the most important thing, and we're really pleased with the 4 billion video views daily that we're getting. We know that marketers love videos so there's a great opportunity here. It's still early. It's worth pointing out that, as Sheryl mentioned, video does displace other ads in News Feed. And let me just kind of speak to how that plays into pricing as well. Video is just a format that's bid into the auction.

So video is effectively winning in the auction if it's higher priced. So if somebody's willing to pay more for a video, it's going to get served before another type of format ad. But there's not really a price differential you're paying for a video, it's just what are you willing to pay into the system. So there's not differential pricing by product, it's just what are you willing to bid for the format that you want to show to the people that you want to show it to and that's how the system works.

### **Operator**

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

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

Mark, does the OpEx guide assume an Oculus product for consumers this calendar year? And will the initial products focus on gaming or more on some of the experiences that you showed at F8 around non-gaming like that Saturday Night Live demo? And then separately, beyond searching within

Facebook, should we expect to see Facebook leverage its 2 million advertiser relationships against third-party search queries? For example, when a user searches on, say, Yahoo! or maybe some Apple device, Facebook might tap it to advertisers to provide relevant sponsored results. Thanks.

**David M. Wehner - Chief Financial Officer**

Ben, let me take the OpEx guidance question. So we have not announced any specific plans for shipment volumes in 2015 related to Oculus. I just know that Oculus is very much in the development stage so it's early to be talking about large shipment volumes, and our expense guidance reflects any volumes that we might do in 2015.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

And no plans to work with our marketers in the way you described.

**Operator**

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

**Peter C. Stabler - Wells Fargo Securities LLC**

Good afternoon. Thanks. Dave, I just wanted to return to, I think, Justin's question about the drivers behind ad growth. You mentioned gains made in relevance and quality and format. Wondering if you could provide any quantitative color around ad engagement trends, clicks, shares, likes or anything like that? And then secondly, one quickly for Sheryl. In your SMB discussions, wondering if you're ever asked to help facilitate transactions in that space? Or that's an area of small business that you're interested in? Thank you.

**David M. Wehner - Chief Financial Officer**

Yeah. So, Peter, just on the – on ads engagement, that's an area that we've obviously been very focused on, and we're really pleased with the results that we're seeing there in terms of driving better engagement per ad, and that's really the focus of a lot of our quality and relevance efforts. How do we find those ads that are going to be more engaging, they're going to get more clicks, that they're going to get more views, that are going to get more installs. We're working on focusing on all of those, on optimizing the relevance of the ads for all of those different potential actions that happen downstream and we're pleased with what we're doing there and the trends that we're seeing there. And, again, that's a big part of what we're trying to

do to drive the overall ads growth story, as well as providing a good experience for users with the ads that they're seeing.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

On SMBs, we have a very small test in the U.S. We started last quarter for buy-on Facebook, and that enables people to buy products from merchants with a buy button on Pages, and it is a product that is used and aimed at SMBs. We're also very focused on helping SMBs have a presence, especially a mobile presence. 35% of SMBs in the United States, which is probably ahead of most other countries, don't have a web presence at all, and an even smaller percentage of SMBs have a mobile web presence or any kind of mobile presence that works. And so Pages are a good and free and easy way to have a mobile presence, and that's something we're very focused on growing.

**Deborah Crawford - Director-Investor Relations**

Operator, we have time for one last question.

**Operator**

Certainly. Your final question is from Mark May with Citi. Your line is open.

**Mark A. May - Citigroup Global Markets, Inc. (Broker)**

Thanks a lot. I had two. You've recently announced plans to enable longer form video content, as well as to allow those videos to be syndicated or distributed on third-party publishers. What, if any, initiatives do you have to help with this content, contributors and the publishers to generate revenue from those videos? And then secondly, on public content, what, if anything, are you doing to try to secure more unique public content, content that's potentially unique to Facebook from personalities and other sources? Thanks.

**Sheryl K. Sandberg - Chief Operating Officer & Director**

On the video question, we're basically focused primarily on video on our own site and service, and video tends to be pretty short form content right now on Facebook because it's playing in News Feed.

We do see some pretty cool examples of people using it well. So for example, in the election, you saw Hillary Clinton announce her candidacy very recently, obviously, and that video got 2.7 million views. Ted Cruz and others have done the same and they've gotten large numbers of video



views. So we think it's a very attractive platform for people to reach people with video messages.

**Deborah Crawford - Director-Investor Relations**

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