Operator

Good afternoon. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the Facebook Fourth Quarter 2019 Earnings Conference Call. [Operator Instructions]. This call will be recorded. Thank you very much. Ms. Deborah Crawford, Facebook's Vice President of Investor Relations, you may begin.

Deborah Crawford

Thank you. Good afternoon and welcome to Facebook's Fourth Quarter and Full Year 2019 Earnings Conference Call. Joining me today to discuss 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. 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 in our quarterly report on Form 10-Q filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we may present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. The press release and an accompanying investor presentation are available on our website at investor.fb.com.

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

Mark Zuckerberg

All right. Thanks, everyone, for joining us today. This was a good quarter for our community and our business and a strong end to the year. There are now around 2.9 billion people using Facebook, Instagram, WhatsApp or Messenger each month and around 2.3 billion people using at least one of our services daily. There are now more than 140 million small businesses that use our services to grow, and the vast majority of which use our services for free.

Last year, I shared our four company priorities, and they're still our priorities in 2020: making progress on the major social issues, building qualitatively new product experiences, continuing to grow our business, and getting out there and communicating more transparently. Today, I'm going to focus

mostly on the new product experiences we're building, but before I get to that, this is going to be another critical year for making progress on social issues. We're very focused on election integrity, and this is an area where I'm proud of the progress that we've made preventing foreign interference. We were behind in 2016, but after working to protect elections in countries across the world from the EU -- in the EU to India to Mexico to the U.S. midterms for the past few years, we think our systems are now more advanced than any other companies. And we're often alerting law enforcement and intelligence about threats that we identify. There's still going to be debate about what kinds of political speech should be allowed, especially as the 2020 elections heat up. But by any objective measure, our efforts in election integrity have made a lot of progress.

This is also going to be a big year for our greater focus on privacy as well. As part of our FTC settlement, we committed to building privacy controls and auditing that will set a new standard for our industry, going beyond anything that's required by law today. We currently have more than 1,000 engineers working on privacy-related projects and helping to build out this program.

Related to this, just yesterday, we announced that we're rolling out a Privacy Checkup tool to nearly 2 billion people, reminding them of the controls they have and making sure that they're set the way that they want them. We also introduced a new tool that notifies you anytime your account signs into a new service. So, it's going to take time, but over the next decade, I want us to build a reputation on privacy that's as strong as our reputation around building good, stable services.

When it comes to these important social issues, I don't think the private companies should be making so many important decisions by themselves. I don't think that each service should have to individually decide what content or advertising is allowed during elections or what content is harmful overall. There should be a more democratic process for determining these rules and regulations. For these issues, it's not enough for us to just make principal decisions. The decisions also need to be seen as legitimate and reflecting what the community wants. And that's why I've called for clearer regulation for our industry. And until we get clearer rules or establish other mechanisms of governance, I expect that we and our whole industry will continue to face a very high level of scrutiny.

So during this, our job is to keep doing what we think is right on the social issues and to stay focused on continuing to deliver product improvements and better experiences for our community. The product areas that I'm most focused on for the next chapter of our company are building out the private social platform and more intimate communities, enabling more commerce and payments and delivering the next computing platform. When I look at

the Internet today, we all have this ability to connect with people, content, and opportunities coming from all around the world in ways that were unimaginable just a generation ago. And I grew up in a town of 10,000 people and making long distance calls anywhere outside the area was very expensive. Today, we all have access to billions of people, and that's made it easier to find people that are into the same things that you are. But as our networks and communities have gotten so large, we increasingly crave a sense of intimacy and privacy. So, delivering this experience is our focus.

And across our services, the greatest growth in how people are communicating continues to come from private messaging, small groups, and disappearing stories where your data doesn't stick around forever. There's a lot more to do here. While the Facebook and Instagram apps have developed with lots of different ways to interact with the people you care about, our private communication apps are still pretty much just about texting, so we spent the last year building infrastructure to turn our private messaging apps, WhatsApp and Messenger into richer, private social platforms where you can hang out and be present with friends, find groups with your interest, engage with businesses more naturally. So, some of these are bigger projects like full end-to-end encryption, interoperability across the apps, or rewriting our apps for performance. And they're going to take a long time to see through. But we should start seeing more new experiences later this year, and this will all be built on a very strong privacy foundation.

Commerce and payments is another area that will be important for the private social platform, but also across all of our apps, including Facebook and Instagram. Our goal here is to make sure that every individual, a small business entrepreneur out there has the same opportunity and access to the same type of sophisticated tools that historically only the big companies have had access to, so that's what we stand for putting power in individual's hands.

One example that we've been working on is WhatsApp Payments where you're going to be able to send money as quickly and easily as sending a photo. We got approval to test this with 1 million people in India back in 2018. And when so many of the people kept using it week after week, we knew it was going to be big when we get to launch. I'm really excited about this, and I expect this to start rolling out in a number of countries and for us to make a lot of progress here in the next 6 months.

Beyond WhatsApp Payments, we're working on several other efforts to help facilitate more commerce from Facebook Marketplace to Instagram Shopping, to our work on Facebook Pay or our work on Libra. This is such a big space, and it's important for empowering people. So we're taking a

number of different approaches here, ranging from people buying and selling to each other directly to businesses setting up storefronts, to people engaging with businesses directly through messaging and a number of things on payments ranging from existing -- using existing national systems like India's UPI to creating new global systems. Having small businesses succeed is not only key to creating broad economic growth where everyone can support themselves, it's also important to maintaining healthy communities since small businesses are often where people come together. We see on our services all the time how small businesses that use our tools are often at the heart of their local communities. So this is a top priority for us on both fronts, for the social mission and the business.

We've also been focusing on delivering the next computing platform with augmented and virtual reality. The defining characteristic of AR and VR is that they deliver the sense of presence, like you're right there with another person or in another place. And this is the Holy Grail of social experiences. And it's going to let us build things that we've only dreamed of for the last 15 years, like letting people interact as if they're in person together no matter where they are or letting people live wherever they want and hologram into work so they can access opportunities anywhere and don't have to move to a city or another country to find a job.

So while full augmented reality is still a number of years away, we hit a real milestone for virtual reality with Quest. Sales are stronger than we expected, and people are buying and engaging with more content than we'd expected to. On Christmas Day, people bought almost $5 million worth of content in the Oculus store. And that's an outlier day, but still, this is real volume by any measure. And it shows the progress that this ecosystem is making.

The experience also just keeps on getting better. Last quarter, we shipped hand tracking, which almost no one thought was going to be possible with the Quest hardware. And we shipped Oculus Link, so now you can run all of your Rift content from your PC on Quest.

On the AR side, while we're working on the long-term hardware and operating system, it's worth noting that our Spark AR platform is the most widely used AR platform in the world with hundreds of millions of people interacting with effects every month. Artists are using this to create new face filters and other tools that are going viral across Instagram and Facebook. We're well positioned here overall, and we're going to keep developing this platform.

So those are some of the bigger product initiatives that I'm excited about. And aside from these, we're also focused on communicating more clearly what we stand for. One critique of our approach for much of the last decade

was that because we wanted to be liked, we didn't always communicate our views as clearly because we were worried about offending people. So this led to some positive but shallow sentiment towards us and towards the company. And my goal for this next decade isn't to be liked, but to be understood. Because in order to be trusted, people need to know what you stand for.

So we're going to focus more on communicating our principles, whether that's standing up for giving people a voice against those who would censor people who don't agree with them, standing up for letting people build their own communities against those who say that the new types of communities forming on social media are dividing us, standing up for encryption against those who say that privacy mostly helps bad people, standing up for -- giving small businesses more opportunity and sophisticated tools against those who say that targeted advertising is a problem, or standing up for serving every person in the world against those who say that you have to pay a premium in order to really be served.

These positions aren't always going to be popular, but I think it's important for us to take these debates head-on. I know that there are a lot of people who agree with these principles, and there are a whole lot more who are open to them and want to see these arguments get made. So expect more of that this year.

This is going to be another important year. It's going to be an intense year with the election. Some of our long-term technology bets are going to start coming to fruition. We have strong business momentum, and we have to get out there and show what we stand for. As always, I'm grateful to all of you for your support and for being on this journey with us.

And now I'm going to hand it over to Sheryl to talk about our business.

Sheryl Sandberg

Thanks, Mark, and hi, everyone. We had a good quarter across the board and a strong end to the year. Q4 ad revenue was $20.7 billion, increasing 25% year-over-year. Full year ad revenue grew 27% compared to 2018.

We're focused on creating value over the long term for our community and for the 140 million businesses around the world who use our platform to connect with customers and grow. The majority use our free tools, but there are also more than 8 million businesses who advertise with us. This is because we help businesses create a mobile presence, increase sales, build the right relationships with customers and hire people. We will continue to focus on helping businesses use our free and paid tools to reach the people who matter the most.

Throughout the holiday season, people used our apps to take advantage of the best deals and shop for the perfect gifts. We saw particular strength with e-commerce and online retailers who optimized for measurable objectives like website visits or sales. Pura Vida, a jewelry company based in San Diego, ran ads on Facebook and Instagram for a 50% off sale. In 9 days, they sold more than 300,000 bracelets, supporting more than 800 artisans around the world.

People often adopt new technologies before businesses, and we try to make it as easy as possible for businesses to catch up. Stories is a great example. We recently announced 4 million advertisers are using Stories, up from 2 million this time last year. Bombas, a sock and apparel company, used Instagram Stories to show people wearing their stocks while ice-skating and gift wrapping. As a result, they saw a 60% increase in purchases from people under 35.

In addition to helping businesses shift to new formats, we're also making it easier for people to shop directly on our apps. We launched Checkout on Instagram with a small closed beta in Q1 2019. We've fully been building the experience, and now hundreds of businesses in the U.S. are experimenting with Checkout. We're taking the time to get this right and growing fully so people and advertisers can benefit over the long term.

We give small and growing businesses like Pura Vida and Bombas the same tools that previously only the biggest firms could access. Large companies can buy national TV spots and large billboards, but most small businesses can't. That's why small businesses benefit the most from targeted ads. We help them reach a more focused audience with the right message, and we do it while protecting people's privacy. This really matters because as Mark said, when businesses of all sizes succeed, they hire people and invest in their communities. Last week, we released a report with Copenhagen Economics. According to 7,000 companies surveyed across 15 EU countries, our apps helped businesses contribute about EUR 200 billion to the European economy just last year. Economists say this translates to more than 3 million new jobs last year alone.

I announced these findings in London last week where I had the chance to meet with Naomi Roberts. Naomi started Flare Audio with her husband to improve the sound quality in everything from earplugs to loudspeakers. More than 75% of their sales come from Facebook and Instagram. This has enabled them to export to more than 180 countries and grow their business from 2 employees to 22.

Stories like Naomi's are why we remain committed to helping small businesses reach customers and grow, but we know it's not enough. We also

have to keep people safe and give them control over their experience on our apps, and we are. This month, we announced a number of improvements to our industry-leading ad transparency tools, including a new feature that gives people the option to see fewer political ads. We also updated our ads library to make it more transparent and easier to navigate. These updates help people understand who is trying to reach them, and we believe that this transparency is critical to empowering people and keeping them safe.

We also want everyone to be in control of their privacy on Facebook. As Mark said, we are rolling out our updated Privacy Checkout -- Checkup tool to nearly 2 billion people around the world. With a few taps, people can control who sees what they share and how to keep their accounts secure.

I want to close by saying how grateful I am to our partners around the world. Every day, they give us valuable feedback on how to improve our products so we can help them turn great ideas into revenue, jobs and economic empowerment.

I also want to thank our teams around the world for working to solve tough challenges while still building great products that businesses use to grow, compete and hire. Thanks to your continued dedication, we are better prepared to serve the billions of people who count on us.

Now here's Dave.

David Wehner

Thanks, Sheryl, and good afternoon, everyone. Q4 was a strong quarter and ended a good year for our business. Full year 2019 revenue grew 27% to $71 billion, and we generated over $18 billion in net income.

Let's begin with our community metrics. In terms of family metrics, we estimate that approximately 2.3 billion people used at least one of our services on a daily basis in December and that approximately 2.9 billion people were active on a monthly basis. As a reminder, the family metrics are our best estimate of the deduplicated audience across Facebook, Instagram, Messenger and WhatsApp. We believe these numbers better reflect the size of our community and the fact that many people use more than one of our services. Beginning this quarter, we are including family metrics and related information in our SEC filings and the slide presentation on our investor website.

Turning now to Facebook. We are pleased with the growth of the Facebook community in all regions this quarter. Daily active users reached 1.7 billion, up 9% compared to last year, led by growth in India, Indonesia and the Philippines. DAUs represented approximately 66% of the 2.5 billion monthly

active users in December. MAUs grew 178 million or 8% compared to last year. We plan to continue to disclose Facebook-only community metrics through late 2020.

Turning now to the financials. All comparisons are on a year-over-year basis unless otherwise noted. Q4 total revenue was $21.1 billion, up 25% or 26% on a constant currency basis. Had foreign exchange rates remained constant with Q4 of last year, total revenue would have been approximately $295 million higher.

Q4 total ad revenue was $20.7 billion, up 25% or 26% on a constant currency basis. On a regional basis, ad revenue growth rates were strongest in Asia Pacific and Rest of World, which grew 33% and 28%, respectively. Europe and U.S. and Canada grew more slowly at 24% and 22%, respectively.

In Q4, the total number of ad impressions served across our services increased 31%, and the average price per ad decreased 5%. Similar to last quarter, impression growth was driven primarily by Facebook News Feed, Instagram Stories and Instagram Feed. Facebook News Feed impression growth benefited largely from community growth and engagement trends on the Facebook app. The year-over-year decline in average price per ad was primarily driven by the ongoing mix shift towards ads on Stories and in geographies which monetized at lower rates. Other revenue was $346 million, up 26%. Year-over-year growth was driven by sales of Oculus Quest.

Turning now to expenses. Total expenses were $12.2 billion in Q4, up 34%. Cost of revenue increased 25%, and the growth was driven primarily by depreciation related to our infrastructure spend. R&D grew 36% and was driven primarily by increased investments in core product as well as our innovation efforts particularly in AR/VR. Marketing and sales grew 23% and was driven primarily by consumer and growth marketing. Finally, G&A grew 87% largely driven by higher legal fees and settlements. This includes charges related to a $550 million settlement in principle we reached this month in connection with the Illinois Biometric Information Privacy Act litigation.

We had over 9,300 net new hires in 2019 primarily in technical functions. We ended the year with approximately 45,000 full-time employees, up 26 compared to -- 26% compared to last year.

Operating income was $8.9 billion, representing a 42% operating margin. Our tax rate was 20%. Net income was $7.3 billion or $2.56 per share. Full year capital expenditures were $15.7 billion, up 12%, driven by investments

in data centers, servers, office buildings and network infrastructure. In 2019, we opened data centers in Nebraska, New Mexico and Denmark. These new data centers are supported by 100% renewable energy. We are committed to doing our part to help tackle the challenge of climate change. That's why we're working to minimize our energy emissions and water impact. Across the entire company, we are on track to meet our 2020 goal of supporting our global operations with 100% renewable energy and lowering our operational carbon emissions by 75% from 2017 levels.

We ended the year with $54.9 billion of cash and investments. I would note that though we booked the expense in 2019, we have not paid the $5 billion FTC fine announced earlier this year as the agreement is still pending court approval. In the quarter, we repurchased approximately -- we repurchased $1.3 billion of our Class A common stock and had $4.9 billion remaining of our prior authorization as of December 31. Today, we announced a $10 billion increase in our stock repurchase program authorization.

Turning now to the revenue outlook. We expect our year-over-year total reported revenue growth rate in Q1 to decelerate by a low to mid-single-digit percentage point as compared to our Q4 growth rate. Factors driving this deceleration include the maturity of our business as well as the increasing impact from global privacy regulation and other ad targeting-related headwinds. While we have experienced some modest impact from these headwinds to date, the majority of the impact lies in front of us.

Turning now to expenses. We anticipate our 2020 total expenses will be in the range of $54 billion to $59 billion, unchanged from our prior outlook. Our 2020 capital expenditures outlook is also unchanged at $17 billion to $19 billion, driven by investments in data centers, servers, office facilities and our network infrastructure. Lastly, we expect our 2020 effective tax rate to be in the high teens.

In summary, Q4 was a strong finish to 2019. We are pleased with the growth of our community and business as we continue to focus on our mission.

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

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Brian Nowak from Morgan Stanley.

Brian Nowak

I have two. Just the first one on Instagram Checkout, Instagram Commerce. I'm curious to hear about sort of early learnings of what you've learned from the hundreds of adopters and sort of what you think are the 1 or 2 key points of friction you really have to get over to build that business into a larger contributor over the next couple of years. And then, Dave, I guess to go back to your comment about the majority of the impact that lies ahead when you're thinking about ad targeting and privacy regulation, is there any more detail you can give us as sort of types of data or types of sort of breakage that you see as potential risk to the targeting and the efficacy of the ads going forward?

Sheryl Sandberg

So I'll take the first part of the question. So when you think about the shopping experience or the checkout experience on Instagram, these are still very early days, and we're working hard to improve the product and expand to more businesses. These require full integration. So our focus is making sure we get the right partners on board and consumers have a great experience all the way through.

We expanded shopping to all -- shopping ads to all advertisers globally Q4, and we began testing checkout and shopping ads. And what you're going to see from us is very small steps to get more people in and make this deeper across the experience people have. But you are right that we are moving very slowly and very, very, very carefully because we want to make sure the entire experiences is right across the board before we go deeper and go broader.

David Wehner

Yes. Thanks, Brian. Yes, we are seeing headwinds in terms of targeting and measurement. But as I noted, the majority of that impact lies in front of us. Just as a reminder, we utilize signals from user activity on third-party website and services in order to deliver relevant and effective ads to our users. And in that regard, there are sort of three overlying factors that I'd point to, and I spoke to these on prior calls as well.

First, the recent regulatory initiatives like GDPR and now CCPA have impacted, and we expect they'll continue to impact our ability to use such signals. Secondly, mobile operating systems and browser providers such as Apple and Google have announced product changes and future plans that will limit our ability to use those signals. And then finally, we've made our own product changes that gives users the ability to limit our use of such data signals to improve ads and other experiences. And there I'd point to

something like the rollout of off-Facebook activity controls, and that's at 100% today.

So, each of these factors limits our ability to target and measure the effectiveness of ads on our platform, and that can negatively impact our advertising revenue growth. Both Mark and Sheryl talked about the importance of ad targeting for small businesses. And I think it's important to note that the regulatory and platform changes will have a disproportionate impact on the ability of small businesses to use ads to grow and thrive.

Operator

Your next question comes from Ross Sandler from Barclays.

Ross Sandler

Great. Dave, can we talk about the growth rate in the fourth quarter, particularly in the U.S.? Was there anything that surprised you guys or any particular cohort of advertisers that slowed down? If we look at your growth rate from 3Q to 4Q in the U.S., I think it was the lowest since 2012 in the fourth quarter. So any color on what happened in the fourth quarter, or was this in line with your plan?

David Wehner

Yes, thanks. Thanks, Ross. No real surprises there. We are pleased with our Q4 results. We had a strong holiday season despite it being abbreviated. In terms of the North American numbers, we're seeing slower growth in our more mature markets. That's consistent with the outlook that we had going into the quarter. It's true in North America and our more developed markets within Europe, but I wouldn't say there's any real surprises there.

Operator

Your next question comes from the line of Heather Bellini from Goldman Sachs.

Heather Bellini

I just wanted to follow up on the Checkout on Instagram. And obviously you guys mentioned that you're rolling it out very slowly, which is understandable. I'm just wondering how much of this is due to the integration you need to have with the businesses' inventory system. And how are you going about the integration work that needs to be done to make the experience seamless, where you could kind of match inventory levels with what people are actually buying? And I guess the follow-up would

be is there a benefit that you envision businesses getting from using this format versus one of your more traditional shopping ads?

Sheryl Sandberg

So, the integration you spoke of are the right ones we want. You want to be deeply integrated at a product level. It has to go all the way through for this to work from discovery, all the way through a pretty seamless checkout flow. And that's what we're working on, and that really takes time. You're also right that we are very focused on commerce ads on Facebook, that the great, great, great majority of activity is commerce ads on Facebook. We had a very strong holiday season. We continue to see growth across Facebook, across Instagram in people who are discovering products they're interested in, and we're continuing to make a lot of investments there.

Operator

Your next question comes from the line of Justin Post from Bank of America Merrill Lynch.

Justin Post

A couple of questions, first on the privacy commentary. Dave, has anything changed since third quarter when we're looking at less deceleration this year? Has there been incremental changes since then? And then secondly, on the expense outlook, I noticed headcount growth was around 26%. As far as getting to your headcount guide -- I mean to your expense guide, do you expect that growth to accelerate? And are there other kind of expense initiatives you'd call out for 2020?

David Wehner

Yes. Thanks, Justin. So I don't think anything has changed since Q3 in terms of our outlook on the headwinds that we have around ad signals. I think that's very consistent with what we've been talking about over the last several quarters. So I think we'll -- we continue to face those headwinds, and they will be more impactful as we move forward.

In terms of the expense guide in 2020, I would say that obviously we plan to -- a large factor of our expense growth is driven off of headcount. And we're continuing to invest across the board in terms of our core R&D and innovation efforts in terms of headcount growth there.

In addition, growth in infrastructure spend is our large increase in CapEx over the last several years, flows through the income statement as another driver of our expense growth as well. And there's other nonheadcount-

related expenses that we expect to grow, including marketing and content investments.

Operator

Your next question comes from the line of Doug Anmuth from JPMorgan.

Douglas Anmuth

Mark, you have multiple payment initiatives across the family. You talked about WhatsApp Payments, Facebook Pay, potentially more over time around Libra and Calibra. Can you just talk about the importance of payments across the family? And how do you tie these together as you work towards interoperability?

Mark Zuckerberg

Yes. So we're doing a lot around commerce and payments because there are lots of different segments for what people are trying to do. In terms of buying and selling things, a lot of people want to buy and sell used goods. We have Facebook Marketplace for that. A lot of small businesses want to set up storefronts. We're enabling that through Instagram and Facebook and then increasingly through messaging as well.

From the payments side, WhatsApp Payments will be a part of Facebook Pay. I mean we announced this program last year that basically we'll make it so if you pay for something in any of our apps, you only need to enter your credit card once, and then you can use that to have a more frictionless checkout experience across the other apps. So those two things tie in together.

But we are taking multiple approaches on payments where things like what we're doing with Payments in WhatsApp or Facebook Pay overall are built on top of traditional payment infrastructure, whereas the longer-term work that we proposed around Libra that's now being handled by the independent Libra Foundation where we're working on a wallet that will work with Libra. That is more a proposal to make it so that some of the payment infrastructure around the world can be more efficient, especially for things like transferring money across borders. And if you think about it, a lot of the companies that do payments and such today are kind of national and/or in one country. And there aren't that many folks who have an incentive to make this work well across different places around the world. So that's some place where we thought that we could add.

But overall, where -- a big focus for us is making sure that individuals and small businesses have access to the same kind of tools that historically only

larger companies have had access to. Bigger companies are going to find ways to sell their things and measure the effectiveness of their ads and all that. A lot of the work that we end up doing goes towards making it easier for small businesses to be able to -- without a big technology shop, be able to use the same tools, get access to payments, set up storefronts easily, being able to measure the effectiveness of ads. And that's a lot of what we're focused on, and you heard Wehner talk about this a bit. A lot of the concerns that we have with some of the potential changes to the ecosystem we think will disproportionately hurt small businesses' ability to compete with larger companies.

Operator

Your next question comes from the line of Eric Sheridan from UBS.

Eric Sheridan

Maybe two, if I can. Mark, you had talked previously about trying to more tightly integrate the applications in the family under the Facebook umbrella. I wonder if we could get an update on the way you're thinking about branding the applications to the consumer as well as integrating them on the tech back end as you look out over the next couple of years.

And then following up on the comment on messaging, I wondered if we can get an update on the way the team is thinking about the messaging component on a monetization front and thinking about some of the more interesting products you might use to monetize the messaging applications, both Facebook Messenger and WhatsApp as you look out over the next couple of years.

Mark Zuckerberg

Sure. So on integration, overall here's how I think about it. We're going to keep the brands, right, from all the apps. Of course, right, I mean these are large communities that people love and strongly associate with a specific app. So that's clearly going to stay.

In terms of integration, all the apps are already very integrated today. We all run off of common infrastructure. We've tried to run the company in a way where we have -- we set up the infrastructure, and we set up the business models. That way, an engineer improving the efficiency of one system makes all of the apps better. And that's -- everything is already very tightly integrated kind of below the surface, in a way that people using these apps may not feel. But I think that the push for the next few years is we think that in running a company, I want to make it so it's not just the back end engineers when they improve something, it improves everything.

We want to make it so that features that get built across Instagram or Facebook or WhatsApp and when people engage on those, it can also make your experience better across the other apps in the family, too. So that's kind of the philosophy behind why we're doing a number of things.

Some of it is just we built up multiple technical stacks in some places that didn't need to exist. The voice calling stack on WhatsApp and Messenger, there's not a real reason why those need to be different. But we didn't standardize that layer historically, and that means that now we have to put twice as much work into making that good. If we got that to be integrated, then the same engineering effort could just make it better across everything at a faster rate.

So there's going to be more work like that. I think some of it will start to be more visible across the apps. The apps will always continue to have their own identity and brand now because they -- people use them for somewhat different things, and that's really important.

Operator

Your next question comes from the line of Youssef Squali from SunTrust.

Youssef Squali

Okay. Great. I actually just have one question. Could you guys provide us any update around Facebook Dating? That is not one product that, Mark, you talked about. Any stats that you can share with us? Any plans to push into other geos? And would you bring it to Instagram as well?

Sheryl Sandberg

So before we answer that, I'm going to go back and answer the messaging monetization, second half of the last question, if that's okay, and then we'll take this one.

On messaging, we are so really focused on this. And we think, in many ways, we're better positioned than anyone else in the industry to participate in the opportunity that should be there over the long run for businesses and consumers to connect on message. In terms of direct ads in messaging, we're taking that very slowly. We have a very slow rollout in Messenger. We don't have that rolled out in WhatsApp.

Where we are seeing a lot of growth and really exciting metrics right now are click-to-messaging ads. These are one of the fastest-growing ad formats in our family, especially with SMBs in markets like APAC, but really across the board. And what happens is that from Facebook or Instagram Feed or

from Facebook, Instagram or Messenger Stories, you can click-to-message a business on Messenger or WhatsApp. It's a really good way to drive engagement. It also really takes people further down the funnel from seeing an ad to having a direct connection with businesses, which consumers like and businesses like. We also think the ROI is very high here.

So I'll share an example. Manulife from Vietnam is an insurance company. They use click-to-messaging ads to generate qualify leads. And compared to Facebook lead ads, which were already performing well, those ads had 2.4x more qualified leads and a 4x increase in sales. And so we think the combination of the discovery ads that we can do, clicking through the Messenger right now already shows the potential of how important messaging can be for businesses.

Mark Zuckerberg

Yes. And I could talk a little bit about the Dating experience. It's going well. I don't think we have any specific stats to share on this, but it's going well. And we -- I think we're already one of the top dating services, and we expect to continue growing.

In terms of where we launched it, we launched a number of countries before bringing it to the U.S. And our product development approach is that we launch something, and then we get feedback. We try to test things before we launch them. But then there are some things that you can't learn until you have it out. And then we will kind of keep on iterating on it until -- in a number of countries, people who use it really like it and keep using it. And then we rolled it out to more countries. So we did that over the last year. We'll continue doing that in more places, but the U.S. was certainly one of the biggest places that we were focused on launching it.

Overall, I mean the way that Dating fits into the strategy here is within the Facebook app, we think that News Feed is really central and that it's one of the only things that we think everyone who uses the app is really going to use on a daily basis. But there are different social utilities that even if not everyone wants to use them, hundreds of millions of people might find value in. So whether that's Marketplace for buying and selling things. Groups and communities, we think, is increasingly ubiquitous, but the tab there isn't going to be used by everyone. It's going to be used by hundreds of millions of people. Things like Watch or the News tab that we have started rolling out are not things that we expect everyone to use. But even if tens or hundreds of millions of people use them, then we're adding unique value that other folks might not be able to build, and we're making the app more valuable.

So I kind of expect in a year or 2, the world that we're going to be in is people use Facebook, they're going to use News Feed, and then they're probably each going to have 2 or 3 other of these social utilities that they find valuable. And as we start building those, I think that that's some part of the story that you're seeing on why the Facebook app engagement has been strong recently is -- especially as we build more of these things that certainly is showing up in how people use the app.

Operator

Your next question comes from the line of Mark Mahaney from RBC.

Mark Mahaney

Okay. Two things, one, congrats on the carbon reduction goal, love that. Posted about it. Mark, you'd be happy to know that. But love to see more companies do that. The real question I have to do -- have has to do with the security of the platform in this election year. And so can you just talk about the confidence you have? And I know there's a lot of things you can't control, but I am sure that there's going to be a lot of controversy around the elections, or I assume that's going to be the case. There may well be bad actor interference as there was 4 years ago. To the extent you think that Facebook and its platforms are ready to handle that better prepared, is there anything you could do to talk more about that, quantify it whatever? Just how you were trying to hedge that risk, which I think is going to be a material risk this year.

Mark Zuckerberg

Yes. This is certainly something that we're extremely focused on. And I do think that there is going to be a lot that we need to be watching out for this year. Since -- in 2016, I think it's very fair to say that we were behind where we needed to be as with a lot of -- the rest of the industry and governments as well and expecting the kind of information operations that we now have seen.

Now the good news is that since then, it's not like this is the first presidential election that we've had to play a part in defending the integrity of. There have been major elections across the world, and each time, we're able to see the tactics of the foreign adversaries evolve. Because we and others weren't really focused on that in 2016 as much, we've been able to improve at quite a fast rate. There are also good partnerships in place now across the industry, across law enforcement, the intelligence communities, not just in the U.S. but across other countries, too. So I think the systems are much more robust.

And you can look at the results in other elections around the world where, for example, in the EU elections last year where a lot of people were very worried that there would be this kind of foreign interference. I actually had gone to the EU Parliament and testified about what we were going to do. And then I think the EU Parliament President after released a statement saying that we'd met our commitments and did the things that we said we were going to do, and it was a relatively clean election.

So it's -- we're going to continue seeing the adversaries get more advanced. And I think certainly because this got a lot of attention, it's not just Russia at this point. We've seen similar types of attempts from Iran, China and some places, others as well. So there's more to kind of look out for there. But overall, I do feel confident about where we are.

One of the things that I think we need to look out for, that the intelligence community has warned us about is some of the goal of some of these nation-state actors is not necessarily to interfere directly, but to just sow doubt about the legitimacy of an election. So even to the extent that we may not even see specific attacks, but if there's a big meme that there is widespread interference, that has the same effect in terms of kind of sowing doubt about things. So we're very focused on this and making sure that people know what we're doing, so that they can have confidence. And this is just -- this is really a top priority for us.

Operator

Your next question comes from the line of Colin Sebastian from Baird.

Colin Sebastian

Great. Two for me as well. Following up on the shopping commerce question, I wonder if the focus here includes expanding Marketplace across multiple services or if that seems like better as a distinct application. And then separately, curious on some of the newer visual apps such as Threads and Lasso, what are you seeing here in terms of usage or engagement? And are these features that ultimately fit within existing apps or also might be distinct from the current services?

Sheryl Sandberg

I can talk about Marketplace. Marketplace is growing nicely. It's now used by hundreds of millions of people every month. We also rolled out ads in Marketplace, which are available in 94 markets, which means advertisers can extend their News Feed ads to Marketplace. We're seeing a lot of interest, especially with retail and auto advertisers. It's very early, but we're seeing good results. So we believe this is a good opportunity we're going to

continue to invest. But for the foreseeable future, even within this, ads remains the great focus.

Mark Zuckerberg

Yes. And I think you mentioned Threads and Reels and a couple of the apps that we've launched within Instagram. It's still early. I think there are some promising signs. We're figuring out the extent to which those should grow to be big, independent apps over time, or should be integrated into the core of the Instagram service or our other messaging apps. So we'll figure that over time, but those are certainly both important spaces to be in, visual messaging and kind of interest-based talent showing Stories-type functionality.

Operator

Your next question comes from the line of Kevin Rippey from Evercore ISI.

Kevin Rippey

Mark, this is really one for you. You described the new experiences that could be rolling out in the back half of the year. Could you just maybe provide a little more color on that and kind of what you're envisioning? It would be great to hear.

Mark Zuckerberg

Yes. I've been talking a lot about how we're trying to build out our private messaging apps into richer, private social platforms. And the idea there is that people want to interact in lots of different ways. And in Facebook and Instagram, you can interact with a lot of people you know or interested in connecting with them in a number of different ways.

But our texting apps today are primarily still texting. So a lot of what we've been trying to do is make it so that we build out the infrastructure, so that way WhatsApp and Messenger and Instagram direct can evolve rather than being just places where you message folks. They can be places where you can hang out and feel more present with people, where you can connect to different groups in different ways, interact with businesses and do payments and commerce.

And when we kicked off this big initiative, a lot of the stuff was long-term infrastructure that we needed to get started building. So we've now been -- we're now a year or so into -- starting to build out a lot of that. So I guess what I'm saying is I just expect some of this to land in this year. Not all of it, some of the stuff is longer term. For example, the work that we're doing on

full end-to-end encryption, that's just -- that's a long-term project. We want to make sure we get the safety implications of that right. Already fully rolled out around WhatsApp. We're really committed to making sure that we nail the safety parts of that before fully rolling it out across Messenger and Instagram as well. So some parts of this will not land this year, but I expect a lot of this will start to land this year around this vision of building the private social platform.

Operator

Your next question comes from the line of Lloyd Walmsley from Deutsche Bank.

Lloyd Walmsley

So this is the second quarter in a row where you guys have called out core Facebook as the key driver of impression growth. So wondering if you can just elaborate a bit on what's driving that strength in core blue engagement, whether this is something you guys expect to continue.

And I guess kind of as a follow-up related to that, there's been some press you plan a Super Bowl ad specific to the Facebook Groups product. So any updates on engagement around Groups or how the strength there is impacting the ad business? Any color you could share would be great.

David Wehner

Yes. Okay. So I'll take that, Lloyd. Yes. I mean we have -- we are pleased with the engagement that we're seeing on the Facebook app broadly. And as you'd mentioned, this has been a pretty consistent story over the last several quarters. So I don't think it's particularly a new story, but we're seeing that across the globe in all regions. And I'd say the character of the engagement growth is a little bit different by region. In the U.S. and Canada on Facebook, we're seeing strength in sort of nonvideo feed engagement. In other regions, we're seeing good strength in video. And then I'd say across all of our apps, we're seeing strong adoption of Stories and, on WhatsApp Status products around the world, and that continues to provide another way for people to connect and share. But specific to core Facebook, I think those are some of the drivers that I'd call out.

Operator

Your next question comes from the line of John Blackledge from Cowen.

John Blackledge

Two questions. How should we think about the video strategy on core Facebook? And any update on Watch users and engagement? And then on Instagram, there's been some discussion within the advertising community that Explore is an area for ad inventory expansion. Just any color on ad trends on the Explore tab.

Mark Zuckerberg

Yes. The video strategy is -- has been pretty consistent. We -- and it's consistent with the rest of what we're trying to do on creating these other tabs and social utilities as well. People watch a lot of video as part of News Feed. But what we also found was that just straight consuming a lot of video on News Feed was displacing some of the social interactions and connecting with people that was the real core of what people came to our services for.

So basically, in order for -- to fully meet the needs that people have for video, we started creating a separate tab, Watch, and that's been growing quickly as well. You can think about the content acquisition that we do there as more along the lines of either marketing or bringing new people into the experience. It's -- we're not building out a subscription service or anything like that around this. So that's more just some good examples of content and anchor content to help create the community and get people into that experience.

Sheryl Sandberg

I can share a little bit about the Explore opportunity. So more than 50% of accounts on Instagram are using Explore every month. And as of Q3, ads were available to 100% of advertisers. We think it's a great opportunity to reach customers who are already in a discovery mindset. And the way it works is after you click on a post in the Explore grid, you enter a Feed-like experience where the ads show up.

Operator

Your next question comes from the line of Michael Nathanson from MoffettNathanson.

Michael Nathanson

I have two, one for Dave and one for Mark. So maybe for Dave, if you look at your slide deck, Page 4, what you see is just this amazing ARPU growth in the U.S. And just the size of the U.S. ARPU is so much larger than all these other markets, including Europe. I wonder when you look at the opportunity to try to drive market -- drive pricing in other markets, what are those gating factors? What are you looking for to -- or what should we look for to

move pricing to be closer to where, I guess, ARPU closer to where the U.S. numbers are heading? And then for Mark, on payments, what are your initial markets that you're trying to target? And what impact do you all expect? And if you get payments right, what impact would that have on your other parts of the advertising business?

David Wehner

Sure, Michael. I'll take the first one. So this has been a pretty consistent question that's come up over the years. And I think the answer largely is the same as I've given on previous calls, which is the U.S. and Canada segment is really a pure-play developed market, which is U.S. and Canada is the 2 countries in that segment. Europe is a broader mix of countries. So you've got Eastern Europe, and you've got Turkey in there. So you've got just lower ad market per capita countries that are included in that segment. It's a much closer number if you were to look just pure-play at Western Europe. And then there's obviously different engagement levels, maturity of Instagram in those markets that also plays into it. I guess not for the Facebook-only stats, but I think you just get different dynamics based on the, really, characteristics of those countries.

So that's really what's driven the difference in ARPUs, and you're also getting faster growth in general in the lower-ARPU countries both within Europe and within APAC. So that tends to also have a mitigating impact on ARPU because of the mix towards those lower-ARPU countries as the users grow there more quickly.

Mark Zuckerberg

Sure. And on payments, we're focused in different places with different products. For things like Instagram and even a lot of what we're doing on Facebook, it's a lot more developed countries. For WhatsApp, it's the biggest countries on WhatsApp. So that's countries like India and Mexico and Brazil and Indonesia, which will make up a large part of the community on WhatsApp.

The way that we expect that this will work out is basically for people, it's just -- this is an important feature to be able to move your money around, pay friends and individuals as well as small businesses. From a small business perspective, being able to close the loop on ads and transactions, we think, is just going to make it so that it's more valuable to have a presence on our services, and buying ads is going to be more valuable. So click-to-messaging ads, which the ads run in Facebook and Instagram but then link you to WhatsApp or Messenger, is a product that's growing well. As you can complete more payments in WhatsApp and Messenger, you would expect it

to be worth more for businesses to bid more there, which is why we're so far focused on making it so that the payments can be free or really as cheap as possible. Because we think that from a business perspective, we will get some of the value just by having the services be more valuable for businesses and the ad prices that they'll bid in the auction.

Operator

Your last question comes from the line of Brian Fitzgerald from Wells Fargo.

Brian Fitzgerald

Within the last few weeks, you brought several gaming streamers on board, the Disguised Toast, Corinna Kopf, ZeRo, and in December, you acquired Play Giga. So we want to hear a little bit more about Facebook Gaming and the opportunities there and maybe the strategic overlap with Oculus.

Mark Zuckerberg

Yes. I mean there are a couple of different things here. Over the long term, there surely will be in -- a connection between the work that we're doing in the Facebook app and Oculus, or there will be opportunities for that. But right now, we're developing them somewhat independently. I think within the Facebook app, you can think about this as a connection -- as an extension of the social utility strategy where we've talked about Dating on the call. We've talked about Watch. We've talked about Groups, News tab. Certainly, the Facebook Gaming effort for the people who are engaged in that. I mean there are a lot of communities that can get that -- people who really care about gaming. It has connections to the video and kind of live content services that we're building out. So this is going to be one of the increasing focuses for us or just the different ways that people want to interact and build communities. We're not just trying to build things that everyone is going to want to use. We think something like gaming, hundreds of millions of people are going to want to use it, and that's great.