

Operator

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

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

Deborah Crawford

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

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. The 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, our Annual Report on Form 10-K and our most recent 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 will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. This press release and an accompanying investor presentation are available on our website at investor.fb.com.

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

Mark Zuckerberg

Thanks, Deborah and thanks everyone for joining today. This has been a busy quarter at Facebook where we planted the seeds to achieve our long-term goals with internet.org, our AI group and our efforts to build the knowledge economy. We continue to see strong overall engagement and are making good progress in our strategy, especially in mobile. This contributes to the result we have reported today. Strong revenue growth, strong growth in daily active and good growth in engagement, as our ratio of daily actives to monthly actives continues to grow.

We have also reached new milestones as a mobile company. Now 49% of our revenue comes from mobile and 48% of the people use Facebook in any given day are only accessing it from mobile. That's almost half of the people only using Facebook from their phones, and it's a pretty incredible sign of how Facebook is evolved over the last year.

On our last earnings call, I talked about our three big goals for the next phase of our company, connecting everyone, understanding the world and helping to build the knowledge economy.

Connecting everyone means giving everyone in the world the power to use the internet and stay connected to the peoples and things that matters them. Understanding the world means helping people not just share day-to-day updates, but also building up long-term knowledge about the world and being able to answer questions for you that no other service can.

Building the knowledge economy is about helping people create growth in jobs and supporting a larger economic shift in the world based on information and ideas. This framework can tell off things about our progress as a company over the next few years, so it's useful way to look at our progress over this quarter as well. We'll start with connecting the world.

This quarter, we took an important step. In August, we launched internet.org, a global effort Samsung, Ericsson, QUALCOMM and other industry leaders to make affordable internet access available to everyone in the world.

Today, only about a third of the world's population is online and internet's is growing more slowly than you probably expect less than 9% a year. We want to change that. Our mission has always been to connect the world and to us that means everyone. When the next 5 billion people have a chance to use these basic services and participate in the global economy, that's going to create huge benefits for everyone in the world.

By working together on technology and new business models, we think we can help accelerate the process of connecting everyone. We believe we are in a unique place to help encourage broader growth of the Internet, because so much of what people do on the Internet is Facebook.

According to comScore, around 20% of the time that people spend in apps in the U.S. alone is in Facebook services when you a lot of people in developing countries what service they care about using most, the answer is often Facebook.

We are already trying to make access to Facebook cheaper. All the same tools of innovation that we are developing to do this can be applied to other

basic Internet services as well, but messaging, search, whether and Wikipedia to make those services cheaper or free to deliver.

We also recently acquired Onavo, business team that builds world-class data compression technology in mobile analytics and they will play an important role in helping us build more efficient technologies and services that use less data. Of course no single company can do this alone and we are working closely with our partners to develop our future plans. It's still very early for internet.org and we will have more to say in the months ahead, but I am very excited about this effort and I am grateful to our partners for being a part of it.

Next, let's talk about understanding the world. What I mean by this is that everyday people post billions of pieces of content and connections into the graph. In doing this, they are helping to build the clearest models of everything there is to know in the world.

A big part of why this works is that people can share things with any audience they want. They don't have to share publicly with everyone at the time. they can share with just their friends, so this means that the model the world that people are building our systems include things that people only want to share with just a few people. This has the potential to be really powerful, but right now we have to do very little to utilize the knowledge that people have shared to benefit everyone in our community.

The service we invest in the most news feeds, which gives you a great sense of what's going on with your community today. The news feed has proved itself incredibly useful for people and the most used app on peoples scoring by far, but this is just the start of what's possible.

When we get to the point, where everyone can easily ask any question to Facebook and get it answered by our community. That's going to be very powerful.

In the last quarter, there had been several important evolutions in our strategy of understanding the world. The first is around Graph Search. At the beginning of this year, we announced the first beta version of the service on desktop and that indexed more than 1 trillion connections between people in this segment.

In the last quarter, we started testing what we call host search allows you to search all the unstructured text and posts that people have ever made on Facebook. About 1.2 trillion more posts. The folks on the team who have worked on web search engines in the past tell me that the Graph Search corpus is bigger than any other web search index out there. It's still early for Graph Search, because it's still in beta, only in English and we haven't

launched our mobile version yet, but it's something I am really excited about.

Another evolution in our progress to understand the world is around our efforts to building mobile apps. Our goal has always been to help people share anything they want with anyone they want. Historically, we have done this by building a lot of features into the core Facebook app, but we also have a few separate apps that are widely used like Instagram and messenger, our standalone messaging app. These are each large services that help people share in different ways Instagram enables more than 150 monthly actives to share beautiful photos also more publicly than people would want to share on Facebook.

Messenger is part of how people spend billions of private one-to-one and group messages every day and with the latest release of the app yesterday, we are continuing to add features and make this a better experience. In the future, we expect to develop more services help people share different content with different groups of people and we will continue to build up messenger as better distinct messaging experience.

There is one more evolution in our strategy to understand the world that I want to mention. In September, we formed the Facebook AI Group to do world-class artificial intelligence research using all the knowledge that people have shared on Facebook. The goal here is to use new approaches in AI to help make sense of all the content that people share so we can generate new insights about the world to answer people's questions.

We started assembling a team of some of the best people in the field to work on these problems. We also announced the acquisition of Mobile Technologies, a speech recognition and machine translation company that will help expand our work in the field beyond just photo recognition to voice. Over time, I think it is going to be possible to build services that are much more natural to interact with and can help solving many more problems than any existing technologies today. I am excited that we are working on this problem and I am looking forward to doing a lot more here.

Finally, let's talk about the progress we have made towards building the knowledge economy. The key to building the knowledge economy is building tools for everyone to use information to do their jobs better. So in addition to connecting everyone and understanding the world, we are also focused on building new services for businesses as a way to accelerate the growth of this new economy.

The way businesses will experience this effort is that we will keep building better services for them to reach their customers with higher quality ads,

more efficient leads with better targeting, better analytics and using richer formats. The way people will experience this effort is that the ads they see will become more and more relevant to their lives.

Last quarter, I started talking about how our approach going forward would be to grow our business through improving the quality of our ads rather than by just increasing the quantity. This quarter we have continue to do this. And the results show our approach is working.

We have been able to deliver better content and grow business for our customers and ourselves. We are planning that a lot more people are finding their ads useful and engaging with them and the average daily actives is engaging with more than ad per week.

Most people probably wouldn't expect to engage with ads that often, so I think it's a great time that people are finding ads useful and they are adding value to the experience on Facebook. I think there is still a lot of room to improve the quality of our ads and grow our business over time. So this is something that we are going to keep on investing in going forward.

So that's my update on how we are thinking about the next big changes we want to make in the world. Connecting everyone, understanding the world and building the knowledge economy. We have made a lot of progress this quarter and I want to take a moment to thank everyone who works with our company and everyone who is a part of our community for all the efforts that make Facebook great.

Looking ahead, you can expect us to keep preparing for the future, even as we keep on building momentum today. As I said in our original S-1 filing, we don't build services to make money, we make money to build better services. This approach has served people who use Facebook, marketers and our entire Facebook community well. It's a different way of looking at the world but its how we are going to keep succeeding as a company.

Thank you for being with us today and now I am going to hand it over to Sheryl.

Sheryl Sandberg

Thanks, Mark. We continue to see strong growth in our ads business, especially mobile. Q3 total ad revenue grew 66% year-over-year to \$1.8 billion and mobile ad revenue grew to 49% of our total ad revenue. This is a remarkable milestone in a short time since we initiated mobile newsfeed ads just last year. Similar to last quarter, our performance is very broad based with strong growth across all geographies and types of marketers. At the same time, our overall user engagement metrics remained strong. We think

this validates the careful approach we are taking to the building our ads business.

I would like to highlight some of the key drivers of our performance this quarter. These are, to a large degree, the results of investments we have made over the past few years and they will continue to be our priorities going forward. The first driver is the continued growth of mobile engagement around the world. In 2013, for the very first time, people will spend more time with digital media than watching TV. Emarketer estimates more than 5.25 hours a day on digital services including mobile compared with 4.5 hours watching TV in the U.S.

Facebook is well-positioned to benefit from this shift. In the United States, Facebook including Instagram, just one in eight minutes people spend on the desktop, but one in five minutes on mobile. According to comScore, Facebook and Instagram have more mobile time spent than many of the next largest services including YouTube, Pandora, Yahoo, Twitter, Pinterest, Tumblr, AOL, Snapchat and LinkedIn combined. Along with this engagement, we believe that we have the best mobile ad product with ads that are integrated unit into newsfeed for people who spend the most of their time on Facebook.

As people shift where they spend their time, marketers are starting to follow. Our results today show that we are benefiting from this shift to mobile and we believe this shift will continue and will continue to benefit us. Today, mobile represents 12% of consumer media time, but it's still only 3% of ad budget. The second driver of our performance is an increasing number of marketers spending their ad dollars on Facebook.

From brand to direct response, to local businesses to developers, more marketers are advertising on Facebook, because they recognize that our ads work to drive sales. This growth is taking place globally. In the third quarter, the number of Facebook advertisers in EMEA, nearly equaled the number in North America, reflecting global growth in our online advertising.

The third driver of our growth is product development. We are working in a number of areas to make the ad people see on Facebook better. More targeted ads are better and we are improving our ad targeting to increase relevance. We are investing in features like custom audience and partner categories to improve targeted. These are great tools that are still in their early days and we will continue to invest.

We also want to make it easier for marketers of all sizes to buy ads and measure their impact. In late September, we rolled out ad format changes, make ad a bit more consistent across Facebook and we reduced the number

of ad units marketers have to choose from to reduce complexity. Then earlier this month, we rolled out a full redesign of our ad buying tools to simplify the ads creation process. Advertisers now select from one of eight business objectives such as website conversion are [often].

We think these product investments make it easier for marketers to achieve their goals. We are also expanding our products for developers. We already have launched mobile app install ads and these are going very well and we now launched mobile app install ads for engagement. These ads help developers and businesses reach people that have already installed their apps and direct them back to increased engagement. We believe these apps are a nice complement to our install ads and represent a unique opportunity.

We also continued to invest in helping brands stay with our campaigns and increase same-store sales. We recently launched Outcome Measurement for the telecommunications industry. An initial test showed that more than 90% of people who made a purchase after viewing a Facebook ad have never clicked on that ad. This shows that impressions matter and focusing only on clicks does not tell the whole story.

Similarly, a recent study by (Inaudible), one of our leading preferred market developer partners proves this point. The (Inaudible) study found that marketers who use the multi-touch attributions to measure campaign ROI credited 12% to 13% more value from Facebook than marketers to use off-click attributions, but we still have work to do. Brand marketers aren't moving as quickly as we would like and we believe measurement is key to influencing the app advertisers.

Another important trend influencing our growth is our preferred marketing developer of PMD program. Over the past few years, we have invested in building an ecosystem that supports all types of marketers and PMD has helped those marketers advertise effectively with us. Today, this program is a community of hundreds of technology and service companies spread across more than 45 countries.

In summary, we think our strong performance this quarter further validates that our ads strategy is working. Marketers are responding favorably as we heard during ad week in New York. Our messages around reach, targeting and measurements are resonating and will continue to reinforce them. Our ads are getting better and we still have a long way to go.

Moving forward, our focus remains the same, continuing to capitalize on a shift to mobile, increasing the number of marketers who advertise with us and continuing to invest in our ad products. We believe that we are in the

early stages of a major transitioning and advertising and we are uniquely positioned to capitalize on that opportunity. Now, David.

David Ebersman

Thanks, Sheryl, and good afternoon everyone. Q3 was a strong quarter for us in terms of our financial results. Our business grew rapidly around the world and we are pleased with our performance across our key financial metrics highlighted by the fact that Q3 was our first \$2 billion quarter in terms of revenue. Let's start with the size and engagement of the Facebook community, which continues to grow. 728 million people used Facebook on an average day in September, up 25% from last year, continues to be driven by mobile.

In Q3 for the first time, daily access on web declined year-over-year, albeit very modestly. Daily users represented 61% of the 1.19 billion people who accessed Facebook during the month of September and our overall engagement data remains strong. Also as we announced in September, Instagram now is over 150 million monthly actives.

I want to say a few words about used engagement on Facebook. As we have said previously, this is a hard issue for us to measure, because self-reported age data is unreliable for younger users. So we have developed other analytical methods to help us estimate usage by age.

Our best synopsis on youth engagement in the U.S. reveals that usage of Facebook among U.S. teens overall was stable from Q2 to Q3. So we did see a decrease in daily users specifically among younger teens.

We won't typically call out such granular data, especially when it's of questionable statistical significance given the lack of precision of our age estimates for younger users. But we wanted to share this with you now since we get a lot of questions about teens.

We are pleased that we remain close to fully penetrated among teens in the U.S., our monthly user numbers remain steady and overall engagement on Facebook remains strong. We will continue to focus our development efforts to build products that drive engagement for people of all ages.

Turning to the financials. Total revenue in Q3 was \$2 billion, up 60% and ad revenue was \$1.8 billion, up 66%. Exchange rates had no meaningful impact. Revenue growth was strong around the world with each of the four geographic regions we report on growing by more than 50% versus last year.

The primary drivers of ad revenue growth were an increase in the number of and the strong performance of newsfeed ads and an increase in the number of marketers using Facebook and increased demand in our system. In Q3, overall ad impressions were up 16% and the average price per ad was up 42% compared to last year.

The growth in ad impressions was primarily due to market where using our service combined with the impact of a price floor reduction late in the third quarter last year. The growth in price per ad was primarily due to the increase in news feed ads. In the U.S. and Canada, where last year's price floor change had a smaller impact, ad impressions decreased 8% and average price per ad increased over 60% compared to last year.

The decrease in ad impressions despite an increase in the number of users in the U.S. and Canada was due to the continued migration of usage to mobile devices where we show fewer ads per person compared to web. The greater than 60% increase in average price per ad in the U.S. and Canada was primarily due to the increase in the number of news feed ads shown on both mobile and web.

Due to their high engagement levels, news feed ads have a significantly higher price per ad than right hand column ads. Therefore the mix shift of our ads towards the higher percentage being in news feed versus right hand column is driving up our average price per ad.

Mobile ad revenue in Q3 was approximately 49% of our ad revenue, up from 41% in Q2. The sequential quarterly growth of mobile ad revenue was due to three factors. An increase in the average price per mobile ad, an increase in the number of mobile users and an increase in ads shown per mobile user.

Looking now at web. Ad revenue from web usage decreased both sequentially and year-over-year. Web ad revenue includes both news feed ads on web and right hand column ads on web. Revenue from news feed ads on web increased significantly in Q3, sequentially and year-over-year, driven largely by an increase in the number of news feed ads per web user. The increase was not enough to offset the revenue decline from right hand column ads.

Total payments and other fees revenue was up 24% year-over-year to \$218 million and roughly flat sequentially. Payments revenue from games was up 18% from last year. So we believe 12% represents the best apples-to-apples comparisons adjusting for accounting items such as the change in revenue recognition timing from late last year. Overall ARPU of \$1.72 per user was up 33% compared to last year. We saw 43% increase in the U.S.

and Canada and greater than 40% gains in each of the other three regions we report on.

Turning now to expenses. In Q3, our total GAAP expenses were \$1.28 billion. On a non-GAAP basis, excluding stock compensation, total expenses increased 40% to \$1.03 billion, driven by higher headcount and infrastructure spend. We ended Q3 with just under 5,800 employees, up 34% from last year and we continue to be pleased with our success in attracting talent.

Our Q3 GAAP operating income was \$736 million, representing a 37% operating margin up from 30% last year. And on a non-GAAP basis, operating income was \$987 million, a 49% margin, up from 42% last year.

Our GAAP and non-GAAP tax rates for Q3 were 41% and 36% respectively. GAAP net income was \$425 million or \$0.17 per share. Non-GAAP net income was \$621 million or \$0.25 per share, up around 100% from last year. In Q3, we spent \$284 million on CapEx and free cash flow was \$666 million.

Looking at our balance sheet, we ended Q3 with \$9.3 billion in cash and investments. During the third quarter, we repaid our \$1.5 billion term loan and replaced it with a new \$6.5 billion line of credit, which is currently undrawn.

We will continue to manage our balance sheet to meet our liquidity needs, protect the business against risk and provide us with flexibility to invest in new opportunities to grow the business.

Now let's look forward. We continue to believe that improving the quality and relevance of news feed ads provides us with a big long-term opportunity, however as we think about the future, we do not expect to significantly increase ads as a percentage of news feed stories beyond where we were at the end of Q3. This is important because increasing ads in news feed has been a meaningful driver of our revenue growth in 2013, so this should be factored into your expectations for next year.

Turning to payments revenue. Remember that in the fourth quarter of 2012, we recognized revenue from four months of payments transactions, so for that reasons we expect payments revenue will be down this coming Q4 compared to last year.

Looking at expenses, we now expect that our 2013 total non-GAAP expenses, including cost of revenue but excluding stock compensation will likely grow around 45%. In terms of our tax rate, we expect that our Q4 and

full year non-GAAP tax rates will be a few percentage points higher than our Q3 rates.

Finally, we expect our 2013 CapEx to be in the neighborhood of \$1.4 billion. This is down from our prior estimate of \$1.6 billion due to a combination of efficiency gains and changes in the timing of our planned purchases.

To sum up, in Q3 we make great process against our key financial objectives, growing revenue, investing for growth and positioning the company to maximize long-term returns for our shareholders and we remain excited about the opportunities ahead.

Now, we are ready to open the call for questions.

Question-and-Answer Session

Operator

We will now open the line for a question-and-answer session. (Operator Instructions) Your first question comes from the line Heather Bellini with Goldman Sachs. Your line is open.

Heather Bellini - Goldman Sachs

Thank you for taking the question. I just had two one for Mark, and then one for Sheryl or David.

Mark, the first one and as Facebook, value proposition is connecting the world, how should we expect Facebook in the future to more specifically leverage [geo] location, data of advertisers, to mobile ads even more useful for your users? Over what timeframe should we expect that to kind of play out in your mind?

Then the second question for Sheryl or David would just be, you talked about brand advertisers taking a little bit more time, I think, than you would have liked spent than you might have liked. Just wondering if you could help us there with that higher mix between DR and brand advertisers as kind of played out over the course of the year, if you could just give us some rough ideas. Thank you.

Sheryl Sandberg

The way we think, I'll take this actually. The way we think about using location data is that every time we use data, we use it in accordance with the privacy controls we offer people and we are working hard at making our ads better targeted. Over time, I think you will see the industry continue to evolve to get better at targeting more ads. We certainly see it as a

significant upside for us to get better at targeting more ads, not just from geo-location data but from all kinds of different data we get based on what users do with our service.

On brand advertisers, we don't breakout the different marketer segments. Our results this quarter are based on growth in all marketer segments, including brand and we continue to make progress. We have every one of the AdAge Global 100 have advertised with us over the past year. My comment was based on the fact that marketing spend is just not keeping pace with the transition to time on line in mobile in that segment of the market. Since that segment of the market is so big, helping that transition happen present significant upside for us.

Our focus there is measurement. We have to show brand marketers that our ads drives in-store-sales and we work on that, we work on that client-by-client to share a few examples from this quarter Cadbury in the U.K. works with us to sell their cream egg product kind of find the table for Halloween to talk about candy to 16 to 24 year old. They used Facebook media for user generated post along with TV, they reached 15 million people, 21% of those people they only reached on Facebook not TV and the combined impact of TV and Facebook where sales were up 9%.

Another example because it shows how we can move awareness is the Alfa Romeo 4c launched in Portugal, (inaudible) where a person could do a test drive with a Formula One driver and they got the highest buzz they have ever had in Google Trends for a product launch.

So as we think it's a big opportunity ahead of us and you have to work on these clients, account-by-account, client-by-client. But we think as the shift to mobile and digital happens, it's a big opportunity and we are focused on helping that shift happen.

Operator

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

Scott Devitt - Morgan Stanley

Hi, thanks. Sheryl mentioned some of the tools that have been added to make it easier for advertisers to access and use the ad platform. One example was the objective-based ad buying. I was just wondering how much you would attribute reduction in friction, like the examples that were referenced on the call, leading to direct and immediate increases in flow of ad dollars versus being more gradual in nature?

Then secondly, for Mark. Mark, the concept of the knowledge economy. I was just wondering, how you envision what the consumer will be doing on the site five years from now? If today is more about and sharing and sharing is more developed than search and production integrations, how do you think about that relationship between those three activities on the site over a five-ish year time horizon? Thanks

Sheryl Sandberg

On the first. Our growth overall is based on the strong performance of news feed ads, an increase in the number of news feed ads per user and also more marketers. The simplification of products has actually been very important in attracting new marketers. If you look at the new advertisers we acquired in Q3, 62% of them started with either promoted posts or promoted page likes which are the most simple of our advertising formats.

So we are continuing to rollout very simple ways to become an advertiser is driving our growth and we will continue to. The larger question you asked was based on our focus of business objectives and that's actually really a big deal for us. We are now getting to the point where our ad product supports really helping marketers achieve their core business objectives.

So before, people use to buy via the product, what product do you want to buy. And now they are buying from, I would say, identifying, I want to get mobile app installed. I want to get mobile engagement. I want to get website conversions.

I think the fact that we are pivoting to focus on those end business results and making everything else including social a part of meeting those business results is a really important part of our strategy. It's driving our growth and I think it's going to continue to.

Operator

The next question comes from Mark May with Citigroup.

Deborah Crawford

Sorry, operator, can we just go back to the second half of that question.

David Ebersman

Yes. I just want to answer the part of question about the product experience over time. I know there are two pieces of this that we are thinking about related to the knowledge economy. The first is just helping our customers use information better to grow their businesses and create jobs. Right.

So we are thinking about small businesses and making it so they can have better insights into who their customers are and better ability to reach them. Now developers have been able to use better analytics for being able to find new customers as well. And those are a lot of the inspiration and the strategy behind the ad products that we are delivering.

On the side of the product experiences that we are creating for people who use Facebook, right now I do think that the Facebook experience is very push based, in that you go to Facebook and we are suggesting content to you through something like news feed. Overtime, I think, if we do a good job, we should be able to create more value through all of the knowledge that has been shared over time that we are not really surfacing on a day-to-day basis right now in terms of helping people answer a lot of different questions that they have around the world.

That's kind of the direction that we are starting to go in with Graph Search and a few other areas as well. But it's pretty early. So I think around a five year time frame like you are saying, hopefully we will make very significant progress towards going in that direction.

Sheryl Sandberg

Great. Next question?

Operator

The next question comes from the line of Mark May with Citigroup. Your line is open.

Mark May - Citigroup

Thanks for taking my questions. Maybe the first one for Sheryl and then David. It seems like a year and half ago around the time of the IPO, the company was very focused on top of the funnel brand related advertising. But over the last year or so, it's been much more around direct response but certainly get the sense that on the top of the funnel brand is starting to move in a more meaningful way. What is the company doing and what are some of the main projects that you are working on that you think will really start to move to dial on the top of the funnel segment of the market. What role does video maybe play into that?

Then for David regarding the ad load comment had ad load not increased in North America, give us a sense of what the ad revenue growth would have been if you normalize for that? Thanks.

Sheryl Sandberg

Top of the funnel ads remain really important to us. Again, our growth this quarter was a very broad based, including top of the funnel ads. The reason they are important is that Facebook is such a unique and powerful discovery place. When you are on Facebook, you are open to discover, you are open to getting messages and that's what we are seeing with news feed messages from friends and with us as well.

The key for us is measurement, the way we are really going to make progress is better measurement. It's easier to understand and measure a click that goes to return online sales. It's harder to measure how you - household that see ads and don't see ads change their purchase behavior in stores

The thing I think we have done a lot over the last year and we are continuing to do that to put those measurements in place, so I talked on in my opening remarks about measurement of telecom. We have also done a ton of work around CPG, so that we can look at households that saw an ad, households that didn't see in an ad and what their difference is.

Just to share one more example, (Inaudible) did a promotion with us for the (Inaudible) in the U.S. They were targeting 35 to 43 seen ads in months, because we were able to do this type of measurement that we could have a year ago, we were able to show that they get side extra turn on their ad spend. We measured household spending who saw their ads versus household who didn't saw their ads and there was a 9% difference.

They were also able to tell that a lot of those 9% was driven by new buyers of their products, which is what they want, so I do think we have a big opportunity, I do think the brands are going to continue to need to be convinced account-by-account, but this moves products off shelf and that's what we are doing.

David Ebersman

Mark, thanks for your question. This is David. Truly not possible to tease out individual contributions because the way the auction works, everything is dependent, so if we have fewer ads that's going to play out with different pricing and other sorts of things, so I can give you sort of our gut feel for it, but I can't quantify precisely.

If you look at overall ad revenue growth for example on that third quarter compared to the second quarter, there is probably three factors that are contributed materially that are important to understand. One is just growth in users. Second is growth in demand, which plays out into pricing. Then the third is an increase in the number of ads that we showed in news feed per users.

I would probably order the ad load, probably third of the straight relative to the sequential growth. I think it plays out a little bit differently on mobile versus web. On mobile, we really increased the number of ads as a percentage of the overall mobile experience quite modestly in the third quarter versus the second quarter.

On web, the increase in the number of ads or the percentage of ads in the web news feed experience went up more significantly than mobile did in the third quarter versus the second.

Operator

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

Douglas Anmuth - JPMorgan

Okay. Thanks for taking the question. Just wanted to ask you about two things. First on video, can you talk about what you have learned from the recent launch of video on Instagram and how that may have shaped your thinking on rolling out video ads on Facebook?

Then secondly, just following-up on the ad volume, just to clarify when you are saying the ad volume won't necessarily increase any more beyond where it was at the end of Q3. Is that on average or in the more penetrated markets? Then can you comment relative to the 5% of stories in the news feed that you mentioned last quarter? Thanks.

Mark Zuckerberg

The experience with video on Instagram has been very positive so far, right? I think that we proved that having a quick start auto play can be a good experience inline in the feed and that people really feel they are in and control they are experience. They can just grow if they don't like content. If it's good content then that can be really good, so we are heartened by that.

This is that important launch for Facebook overall, because the addition of video content to the stream could be one of the most positive things that we have done in a long time for making it more engaging, but if we do it quarterly then it could also be a negative thing and we are trying to take our time to make sure that we do this in a very positive way and I am pretty confident that we will. But that's why you are seeing us take the process that we have on this.

Sheryl Sandberg

Now I will add on videos ads. We do have a video ad product today, because any one can embed a video in page post. And we are actually seeing very good results, particularly around entertainment and media. This is driving some of our ad spend. And the area remains pretty exciting because this is a very compelling way for marketers to tell their story.

David Ebersman

So I thought you asked what we mean when we say ad volume won't increase. So the first thing I would say is, I would frame that in the context as a percentage of the user experience. Obviously, if we can drive more engagement that provides more opportunity for us to show more ads. In general, I think your question referenced whether this was geographic.

The ad load in news feed is reasonably consistent across the world. It's a little bit less in the least developed markets because we have less advertiser there. But it's not different grossly different. So I think that comment holds generally across most of the markets where we make our advertising dollars.

In terms of relative to the 5%. So what we said last quarter was that, of the total volume of stories in news feed, about 5% of those were ads. As I said on the last question, the mobile piece of that didn't change very substantially in the third quarter versus the second. The web percentage did go up. So if you mix those two together, the Q3 number would be modestly higher than the 5% number from Q2.

Operator

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

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

Mark Mahaney - RBC Capital Markets

Great, thanks. Two question. First, David, could you just give us some color or why the reduction in the OpEx growth for this year? Were there certain investment projects you decided to cut? And what were those and why?

Then secondly. Mark, this kind of five year vision of moving towards, going from push base to pull based, that opens up a lot of opportunities. I mean that's been kind of the sauce maybe behind Google and it's an interesting part of Twitter, et cetera. But could you talk about the challenges in order to get there, and maybe both in terms of user experience the advertiser

opportunity, how difficult and substantial the technology challenges are to get there? It's a very different direction and there is lot of opportunity but how do you get from point A to point B? Thanks.

David Ebersman

Hi, Mark. In terms of OpEx growth, so we are continuing to invest aggressively in the business with particular emphasis on technical hiring and building out our infrastructure. At the same time, we are trying to do this in a disciplined fashion making sure that all the investments we make and the dollars we spend are spent wisely in terms of furthering our mission and creating returns for the company.

I am really quite pleased with how things are going in that regard in 2013. From an R&D standpoint, we are really on track for anything ahead of what we expected to be in terms of hiring and spend. And that's surely the most important area for us in terms of investing to drive future growth.

In other areas of the business, such as cost of revenue, G&A, marketing and sales, I think we are ramping up spend less than we anticipated for a couple of reasons. One is better success than we expected in some of the efficiency projects that are helping to keep the company small, even as revenue ramps up. A second reason is, some slower than expected ramp up in both hiring in new projects. And then the third contributing factor is just we have in the budget some expectations for the unplanned stuff that comes along that can drive spend, like an asset acquisition or something like that and we really haven't spent this much money as we have expected in the unplanned areas.

Mark Zuckerberg

Yes, and to your question about on how do we make the knowledge that's been shared in Facebook more useful. The first thing we needed to do is just index it all and build the infrastructure to start being able to use it in different ways. I mean the first data for Graph Search, we had indexed to more than a trillion connections, friendship connections, group membership, like connections and then for post search, we indexed more than a trillion of the post that people that people have put into the system.

The basic insight that we think we are operating on here, is that right now a lot of the behavior and engagement on Facebook is very day-to-day where you are sharing something and Facebook is the best place for you to share photos or events that's going on in your life and if you go to news feed and see what's going on with the people around you.

What has happened is that, over the past almost 10 years of this behavior, this amazing base of knowledge has been build up, but there is trillions of pieces of content and information that now we are just trying to find different ways to expose and basically make that more useful to people instead of just the stuff that's been shared in the last day or so.

Graph Search is one way that you can see that coming to light in terms of people being able to do directed queries for different types of content. There are other kind of services that we think we can build as well that just a few people more utility from the corpus of knowledge that's been built out and that's going to be a big focus for us over the next few years.

Operator

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

Justin Post - Merrill Lynch

Mark, after a successful revenue year, you kind of start next year with a clean slate and you highlighted some big ambitions in your prepared remarks about access and improving search. Just maybe you remind us how you think about driving profit growth as you look at the company relative to kind of your long-term objectives for the company. Thank you.

Mark Zuckerberg

Well. I mean, we care a lot about that. In terms of the shareholder value that we are generating as well. I think in the recent results and what I said at the end of my remarks there was that, we are going to keep on planting seeds for our future growth while continuing to build momentum now and I know that's a philosophy that we have taken in term of building the company. We generally wanted to be profitable as such, but I don't think we are going to commit or have any specific guidance on this right now.

Operator

The next question comes from Carlos Karjner with Sanford Bernstein. Your line is open.

Carlos Karjner - Sanford Bernstein

Thank you. Mark, can you talk a little bit more about how the knowledge in the Facebook graph compares with the knowledge in the overall web today qualitatively and quantitatively? Is there a plan to connect the worldwide

web graph to the Facebook graph when you think the answer that you are going to give people into future?

Secondly, the graph regulation in the European Commission in Brazil at least may require internet companies such as Facebook to store all their data locally. What do you think will be the impact on Facebook's CapEx and expenses if these regulations are indeed implemented? Thank you.

Mark Zuckerberg

Yes. Sure. On your question about the graph of Facebook, the graph that people share on Facebook versus the web overall, I think they are pretty different. In terms of quantity, they are getting to a pretty comparable size, so engineers on the graph search teams have told me folks who have worked on other web search engines before tell me that the scale of things like post search are as big or bigger than any web search index that's out there but they are they are just different used cases with different kinds of knowledge and people are going to use them for different things, so our approach with Graph Search is not to build something which is web search.

I mean, we think that companies have done that and they are doing a good job at that, but there is different kinds of knowledge. Things that you want more opinion on from people that you trust that I think is kind of a late inside Facebook that we need to do a better job of servicing that, so that's going to be the focus on that.

I mean, over time, there are a lot of possibilities for things that we can do and I am not really ready to talk about a lot of them today, but you can kind of look at what we have launched in the couple of the Graph Search launches that we have done so far and we are pretty early in that journey.

David Ebersman

Carlos, the second part of your question about draft legislation or discussion about companies needing to store data locally in various companies, it's an interesting question and definitely something we are tracking, but the answer is really going to depend on the details of what that looks like. It's very hard assess what kind of implication it would have for company like Facebook without understanding what we would need to do, so, we will continue to pay less attention to it, but really hard to give anything in the way of the specific answer at this point.

Operator

Your next question comes from Jason Helfstein with Oppenheimer & Company. Your line is open.

Jason Helfstein - Oppenheimer & Company

Thanks. Can you give us some color on how many advertisers you guys ended the quarter? How that grew? And if there is a way to think about how many advertisers have claimed pages so we can get a sense of how deep the penetration is. Because it looks like you guys are more successful than other companies and growing at a faster rate, particularly on the local penetration side? Thanks.

Sheryl Sandberg

So last quarter we reported that we had a million active advertisers and that number continues to grow and continues to grow healthily. We believe, globally, we have 20 million small businesses, local businesses of some kind who have pages. So obviously just a fraction of those are advertisers.

And I think its one of the most exciting opportunities in front of Facebook. It's really hard to get small businesses to use technological products and 20 million small businesses are using us and we haven't gone out and done aggressive sales efforts to make that happen.

Going from having a page that you are using for organic distribution to paid distribution, it's something we are very, -very focused on. It's why we rolled out these simple products. And I think our track record at doing that is good and we plan on getting better at it.

Operator

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

Ross Sandler - Deutsche Bank

David, sorry to beat a dead horse, but back to the ads per user comment. Can you give us some color on, I guess since you guys started the mobile news feed ads a year and change ago, how much CPC and click through rate improvement you have been able to drive? And should we think about it, going forward if mobile users are growing at 18% in the U.K., 20% in the U.S. and I think 60% for ROW, should we think about revenue growth as a slight premium to that but somewhat co-related to that? Thanks.

David Ebersman

Sure, Ross. So I think if you look back over the last year, some of the metrics that I think have been most positive for us have been, as we have ramped from a very low volume, very few ads shown in news feeds to larger

numbers, what one could reasonably have expected given the way the auction dynamics work, is that the pricing would really come down as we were delivering more clicks and as we were I think deeper into the pool of the advertising demand.

And the way pricing has really held up and click rates have held up and CPCs have held up, as we have progressed through this over the last year, I think has really validated our confidence that news feed ads were going to be really important product that could really drive the performance of the business. So we remain really encouraged and pleased by that.

Going forward. Clearly, we will try to continue to grow the user base, as you described, and that's been an important part of our revenue growth since the company started. And the other opportunity is for us is continue to improve the quality, the relevance and the performance of the ads and to drive up pricing by bringing more demand into our system. We are certainly doing a good job of that right now and we have got to continue to execute.

Operator

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

Eric Sheridan - UBS

Sure. Thanks, guys. Two quick questions. One, following up on the last one with respect to ROI around advertising products going forward. I guess, maybe more for Sheryl, but how do you guys think about the dialogue between advertisers and yourself about ROI and how much of that fits with measurement and attribution tools that you guys would need to develop internally versus what they need to think about in terms of the ROI on your properties versus other online and offline properties.

And second question on mobile app install ads. Question about the diversification of the advertiser base and how that sort of developed since the product has been launched? Thanks.

Sheryl Sandberg

So the first question, it's really both. In order to measure all the way from seeing a Facebook ad through to a purchase, particularly when that's offline. That takes work and tools on our side including the data systems and it also takes thinking about measurement on their side.

The industry overall is moving. We have been really pleased to see more embracing of multi-click over last step attribution. You can see that happening with a number of big players in the industry. The PMDs are really

important here. The PMDs are good at helping people and helping marketers measure.

But really the developers' measurement system take our measurement, take industry measurements. Particularly for brand advertisers, they also take some rethinking of the ways they have measured ads and ads' performance before and we work very closely with our clients on that.

On mobile app install and mobile engagement ads, we are very focused on growing across the board. We want growth in all of our marketer segments and we want to grow that broadly across the world.

Developers are really interesting place for us, because we think not only do we have we think the best mobile ad product in general, because people spend a lot of their time in news feed. They spend more time in news feed than they spend on any other part of our service. That gives us an opportunity to sell ads broadly, but it also gives a great opportunity for developers, because the developers want people to do happen on their mobile phones and on their desktop.

Mobile app install ads have been very successful for us and they are interesting, because the mobile app install market didn't even exist a few years ago. I think the move to rollout engagement ads further deepens our relationship with developers and shows that we can help different users and then we can get those users to continuously use their products, so we are pretty excited about this part of market, because we think it can grow quickly and we think our ad products and offerings are so unique.

Operator

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

Peter Stabler - Wells Fargo

Good afternoon. Thanks very much for taking the questions. You introduced hashtags in June and I am just wondering if you could comment on usage trends. How strategically important hashtags are to index in the knowledge graph going forward and where their hashtags could become a meaningful part of an ad targeting opportunity in the future if usage catches on in a significant way. Thank you

Mark Zuckerberg

The launch of hashtags was more just following behavior that we see from people, right? All we really did was take hashtag that people are putting into

the product and make them linked, so if you could find other posts that have the same tag.

The effort that I think you are latching on to is basically we are putting some more effort now into both, public content on Facebook and more private content, right? As there are a bunch of different sets of people that a person will want to share with, one is all of their friends, but a lot of the sharing and the communication done is one-on-one in messaging or with small groups or with the communities.

Then there is a large set of content that's public, which is often very high quality content as well and we have efforts in all of those areas to make a set people can share all of those different kinds of contents on Facebook. That's going to be something that we are going to continue to do.

Operator

The next question comes from Brian Novak with Susquehanna. Your line is open.

Brian Nowak - Susquehanna

Thanks. I have two please. You continue rolling out a lot of new products, I was wondering if you could speak to the traction and kind of anything user adoption of the early topical and interest trending that you have rolled out.

Last quarter you talked about strengthened e-commerce driving some of the advertising which kind of verticals would you speak to this quarter and as we are heading into the holiday season, you still see e-commerce as being a big driver again? Thanks.

Mark Zuckerberg

Yes. You are asking about the effectiveness of some of the public content efforts that we have done. I think it's starting to do very well and we are very pleased with it. Some of the questions that we have gotten has asked if this is an area that we have started focusing on recently, which actually it isn't something we have been working on for a while, but I think the question as a sign that the results are starting to be quite good and folks are starting to note it. The traffic that we are driving and the higher quality content that's public that people came for us on Facebook, so we are going to keep focusing on this.

It's not just about public content, it's about giving people the power to share with every different audience that they want, weather it's most private one-

on-one communication and tread up to the most public content that you want to get out for everyone in the world to be able to consume, down the road we are going to keep watching all of that.

Sheryl Sandberg

To your second question, direct response including e-commerce continues to perform well. We have high click-through competitive CPC, so we are attractive from marketers. When you think about verticals, I think we have very tremendous opportunity in basically all of them.

Things that are performing particularly well right now financial services, media and entertainment, e-commerce, professional services. But if you look to a vertical like auto, that we haven't historically been strong in, I think we are starting to make real inroads, client-by-client, like the Alfa Romeo case study I showed, because we had such a great opportunity to engage the people they want to reach.

Our targeting is also getting better. So with custom audiences and partner categories, we are able to identify, here the people you want to show your ads to who, we believe are in the market to buy a car, for example. And so the combination of the measurement work we are doing and the ability to target, I think means we have a strong play in every vertical.

Operator

The next question comes from Richard Greenfield with BTIG. Your line is open.

Richard Greenfield - BTIG

Hi. I really wanted to ask you about the Instagram blog post that you put up the other week, where you stated specifically that, I think the quote from the blog was, you want ads to be creative and engaging, and that seems pretty different than most of the advertising that I have seen on Facebook, whether on mobile or on the desktop. I wanted to ask you how do you think, or is it possible that if this strategy of advertising works well on Instagram, could we actually see a new form of advertising appear on Facebook sometime in 2014 or 2015.

Sheryl Sandberg

So what we announced last week is a small test with 10 advertisers to start showing ad in the Instagram feed. And we are excited about it because there is a lot of interest and a lot of excited brands. When you think about ads

being exciting and engaging, I think we think about two things. We think about ads that fit the format of the product that they are part of.

So the Instagram ads right now are the pictures and videos which are exactly what people post on Instagram. If you look at the progress we have made with our news feed ads, those ads, those in the size, the shape. You know they got larger when they moved over from the right hand side, right hand column but they are also meant to be as exciting, as engaging as the content.

So our goal is, we want our ads to be as good as the user shared content. Some of them are, a lot of them aren't. We have a lot of room to grow in improving that quality. But in terms of the excitement you will see or the interest, that is our goal. And we are just going to match the format of the products we are working with as we rollout ads.

Deborah Crawford

Operator, we have time for one last question.

Operator

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

Brian Wieser - Pivotal Research

Hi. Thanks for taking the question. I have taken notice of the number of businesses advertising. I was wondering if you could just quantify the number of new small businesses perhaps or number of advertisers going beyond that one million in the quarter? The reason I ask is, I am trying to understand to what degree that maybe the shift is spending mix towards smaller business may have contributed to margin expansion. And maybe can talk about the margin profile that different segments of marketers bring to your business?

Sheryl Sandberg

So we don't break out our business by marketer segment and we don't give margins by marketer segment. But to help answer your question, we have seeing strong growth across all of our marketer segment. All of them are growing brands, growing direct response and E-commerce are growing, F&B and local businesses are growing, developers are growing.

We definitely think there is a big opportunity for those to grow same-store sales of our large clients, particularly with the shift that's happening from TV

to digital and mobile. We think that there is a really exciting opportunity. We also think SMBs are a big opportunity for us and certainly in an advertiser base of over a million advertisers, the great majority of that is obviously the small to medium sized businesses.

We worked hard on our sales efforts, so that we have the right sales and support effort to meet our clients. We care about our margins. We certainly have simplified products such as we have rolled out over the last year, make it easier and cheaper for SMBs to use our products. Easier for them and cheaper for us. And we will continue to focus on the automated tools that help.

I think the most important thing we have done on this goes back to an earlier question about focusing on marketer objective. Before we were asking marketers to come in and choose what ad products they were buying. With our shift to focusing on marketer objectives, it's easier for everyone from largest to the smallest. You know, a small business owner can come in and say, I want my app install or I want web conversions or I want web clicks and then we are doing the harder work of figuring out what products are there, figuring out which of those ads should have digital content, so that we can meet those objectives

I think that move of moving more towards using their language and focusing on their business needs is a simpler product for them. It will help gain us more marketers and it helps us work with them in a more efficient way.

Deborah Crawford

Great. That's it. Thank you for joining us today. We appreciate your time and we look forward to speaking with you again next quarter.