

Operator

Good afternoon. My name is Courtney and I will be your conference operator today. At this time, I would like to welcome everyone to the Facebook Fourth Quarter and Full Year 2014 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 Vice President of Investor Relations, you may begin.

Deborah Crawford

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

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements, and actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in today's press release and on our Annual Report on Form 10-K 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. The press release and an accompanying investor presentation are available on our Web site at investor.fb.com.

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

Mark Zuckerberg

Thanks Deborah and thanks everyone for joining today. This has been a good quarter for Facebook and a great end to the year. Our community continued to grow in size and engagement and we're very pleased with the growth of our business. Overall 2014 was a year of great progress for the Facebook community. 1.39 billion people now use Facebook each month and 890 million people daily, an increase of active and 133 million daily active this year. Time spent per person per day across our services continue to rise growing this quarter by more 10% compared to last year and that doesn't even include WhatsApp, which joined us late last year.

These milestones show our community continues to get stronger. But it's not just our community where we've made a lot of progress. 2014 was also a year of big investments in our future. This year we made big bets on the next generation of communication and computing platforms by acquiring WhatsApp and Oculus. We focused on serving our community better across all of our products, raising the quality and relevance of content to News Feed, improving our search and video products and improving the performance and efficiency of our mobile apps.

We continue to invest in our employees and infrastructure, grew our headcount by 45% this year and opening our newest data center in November in Altoona, Iowa. When you consider the progress of our community and our investments, 2014 was an important year for us and a good sign of how we're thinking about the future. In the next decade, Facebook is focused on our mission to connect the entire world, welcoming billions of people to our community and connecting many more people to the Internet through Internet.org.

To serve the entire world, we need to build products that serve our community and allow people to share different types of content with different audiences. We need to offer new services and infrastructure at greater scale, but we need to create new tools and innovate to solve fundamental challenges in the places we want to connect. Doing this will take a lot of effort over the coming years and Facebook is going to have to evolve.

Similar to our transition to mobile over the last couple of years, now we want to really focus on serving everyone in the world. Our mission has always been to make the world more open and connected. This is something we've been preparing for over the last decade. Everything we've achieved in 2014 and over the last ten years has helped us to build a foundation for future of greater scale. I'm excited for our progress in 2015.

Now, with that in mind, I'm going to talk about the things that we expect to execute on over the next three, five and 10 years. Over the next three years, our main focus is to continue to serve and grow our community by delivering better services for people and businesses around the world. One sign of our continued growth and engagement is our progress on visual and public content. More than 2 billion photos are now shared daily across Facebook, Instagram, Messenger and WhatsApp. Video grew significantly this year to an average of more than 3 billion video views per day on Facebook. But we now have more than 2 billion interactions every week on Facebook between public figures and their fans.

Instagram is also growing and helping people share and consume the most engaging content in different communities across the world. Instagram reached 300 million monthly actives with more than 70% outside of the U.S. Average time spent using the app continues to be very strong compared to other mobile services. Across Facebook and Instagram, we've done a very good job on engagement, especially when it comes to helping people find and consume content they like.

In 2015, we'll continue working on this as well as developing more ways for people to share even more of the moment they care about on Facebook. Five years ago, most of the content shared on Facebook was text and some photos. Today, it's primarily photos with some text and video. Over the next five years, we want to keep developing new products and features to help people share the way they want.

When it comes to serving businesses, we continue to help drive results for businesses of every size around the world. Last week, a Deloitte's report found that in 2014 Facebook created more than \$225 billion of global economic impact and \$4.5 million new jobs. This is an important reminder of the big opportunity we have to create value for businesses and why we're committed to serving them well. In 2014, we invested aggressively in improving our ad-tech and measurement tools. We're going to continue working to provide new capabilities for marketers. Sure, I'll talk about this more in a moment.

Next, let's talk about our efforts over the next five years to build the next generation of Facebook services. We expect WhatsApp and Messenger to connect hundreds of millions of more people and become indispensable services for the world as well as important contributors to our business. Messenger and WhatsApp recently achieved impressive new milestone. In November, Messenger reached 500 million monthly actives, and at the beginning of January, WhatsApp reached 700 million monthly actives with more than 30 billion messages sent each day. These numbers speaks the quality of both products and the size of the opportunity ahead to help billions of people communicate and collaborate.

Search at Facebook is another important effort that we expect to create a lot of value over the next few years. In this quarter, we launched updates to Facebook search to make it easier to find content and posts on mobile and desktop. We're going to continue listening the feedback from our community and to admit time to build really valuable products here. We're optimistic about our ability to deliver value that only Facebook is able to provide.

Working with developers is the other part of our strategy. In this quarter, we continue to make progress with helping developers build, grow and monetize

their apps. In October, we rolled out our audience network around the world. And since then, the number of apps in the network has nearly tripled and impressions served by the network have more than quadrupled. In 2015, we'll continue to build upon our long-term goal of making Facebook a truly cross platform, platform, to allow those developers to share their work on every major mobile platform and we look forward to sharing more details at our next F8 event in San Francisco this March.

Finally, let's talk about our plans over the next decade to connect everyone to the internet through Internet.org and to develop the next generation of computing platforms with Oculus. Internet.org now has a lot of momentum. We launched three basic internet services in Zambia, Tanzania, Ghana, Kenya, and Columbia. More than a 150 million people living in these countries now have the option to connect to the internet using the Internet.org, but we've already connected 6 million of them to the internet, who did not accessed before. We're very excited by Internet.org's progress and the level of interest we're seeing across industries, governments, and our community.

2015 is going to be an important year for our long-term plans and I expected to share more updates about our progress here over the coming months. Oculus continues to make progress towards the future of immersive VR experiences that are part of daily life for millions of people. This month the team done another good showing of ZS and developer's interest in Oculus platform continues to grow.

So that's my update for this quarter. It's been a good quarter and a good end and it's an important year for us. I want to thank you everyone in our Facebook community and our employees, our partners, and stockholders for their support. Thanks to you. Our community is growing stronger everyday and we're making progress towards making the entire world more open and connected.

Thanks and now here is Sheryl.

Sheryl Sandberg

Thanks Mark and hi everyone. Q4 was strong across the board, tapping a great year. This is our first quarter with over \$3 billion in ad revenue and over \$2 billion in mobile ad revenue. Our Q4 ad revenue grew 53% year-over-year. Our mobile ad revenue was 69% of the total ad revenue and double than the past year. Our growth is strong across all verticals in marketer segments. We also saw healthy growth around the world although growth rates outside the U.S. were effected by exchange rates.

Looking back at 2014, our team has made great progress on our three main priorities. Capitalizing on the shift to mobile, growing the number of marketers using our ad products and making our ad more relevant. We believe that the market increasingly understands that we have the leading mobile ad products and are the only platform that delivers people based marketing upscale. A shift to mobile is changing the way people consume video. As Mark said, video grew dramatically on Facebook in 2014, especially around global events like the World Cup and the ALS Ice Bucket Challenge.

In just one year, the number of video posts per person on Facebook increased 75% globally and 94% in the U.S. Today, over 50% of people in the U.S. who come to Facebook daily watching at least one video per day and globally over 65% of Facebook video views occur on mobile. Marketers have followed this trend and are using video to help people discover and learn about their brands. In Q4, we expanded autoplay video ads internationally. During the holiday season, we saw many clients telling their stories creatively through video.

2014 was also the year we began scaling Instagram ads. In Q4, we rolled out Instagram ads in Australia and Canada. Marketers are excited to have access to the 300 million people views Instagram and the creativity it inspires. We're seeing beautiful creative and great results from brand marketers across verticals from insurance and tax to retail and entertainment. For example as one of our first Instagram video advertisers, Banana Republic developed a series of videos to promote its BR clothing lines. The video showed fashion sketches from the new collection and drove a 23 point lift in ad recall. While, it's still early and we're being deliberate in our rollout. We believe that Instagram will become core to advertisers and mobile brand building efforts.

We also made progress growing a number of marketers using our ad products. Custom audiences, our suite of proprietary targeting product has become an essential tool for segment current and potential customers. Conversion tracking away from marketers to measure the impact of their campaigns online is also seeing wider adoption. We've made it easier for businesses of all sizes to plan and manage their ad campaign and for small businesses to use our targeting tools.

Travel company, Thomas Cook, recently used Facebook in Belgium to reach a broad audience and used custom audiences to send targeted messages to existing customers based on the places they'd expressed interest in. It reached 30% of the Belgium population in just one day and achieved a 3.85 times of return on investment. Results like these are attracting more marketers of all kinds to our platform. Finally, we made great progress improving ad relevance and measurements. To do this, we made significant

investments in both our core measurement and targeting tools as well as ad-tech.

Earlier in 2014, we introduced ad buying capabilities based on reach and frequency metrics which is similar to how brand marketers buy TV ads and therefore enables better cross comparison. We improved our Ads Manager product to give better insight into ad campaign to audience impact. In the fall, we re-launched Atlas to help marketers reach real people and measure results across multiple devices. Omnicom is our first global client and this month we announced a partnership with Havas to further expand globally. We also invested in Audience Network, which helps marketers to extend their campaign off of Facebook and LiveRail which provides publishers the video tools to monetize their inventory more efficiently.

Heading into 2015, we're excited to build on the progress we've made with our core ad products as well as with newer areas like video, Instagram, and ad-tech. It is still early days in all of these efforts. There is a lot of hard work to do and we plan to invest aggressively. Our ultimate goal is to be a critical business partner to our clients, providing people-based marketing of scale to build their brands and move their off shelves.

Over the past few weeks, I have had a chance to meet with many of our largest global clients and agency partners and talked about how we can drive real business results for them, making every impression and every dollar they spend improves their bottom line. Our clients are excited by the opportunity to use video Instagram and ads on and off Facebook to reach the right people with the right message. In turn, as their ads become more relevant, we provide a better experience for the people who use Facebook.

Humming off our biggest year ever I want to say a special thank you to the Facebook teams around the world, to our global sales engineering, product design and infrastructure teams, your accomplishments over this past year are the reason our business is in such a great place. To our entire company, I feel lucky to work with you as we stay focused on our priorities and work together to help connect the world. And to our clients thank you for your partnership and your trust in us. Heading into 2015, we have big opportunities and a lot of work ahead.

Thanks and now here is Dave.

Dave Wehner

Thanks Sheryl and good afternoon everyone. Q4 wrapped up a strong year for Facebook. In 2014, our revenue grew 58% to approximately \$12.5 billion and we generated over \$3.6 billion in free cash flow. We are very pleased with the continuing growth of our network. In December, the number of

people using Facebook on an average day increased by 18%, compared to last year to 890 million.

The daily number represents 64% of the 1.39 billion people who used Facebook during the month. Mobile remains the primary driver of our growth. We ended the year with 1.19 billion people using Facebook on mobile in the month. We also continue to see solid growth with Instagram, Messenger and WhatsApp recently crossing 300 million, 500 million and 700 million MAU respectively.

Turning now to the financials, all of our comparisons are on a year-over-year basis unless otherwise noted. In addition as a reminder, our non-GAAP measures exclude stock-based compensation and the amortization of intangibles. Total revenue in Q4 was \$3.9 billion, up 49% or 53% on a constant currency basis, given how significantly exchange rates have continued to move, we anticipate that this currency headwind will increase in 2015. I will give more color on this later in the call.

Ad revenue was \$3.6 billion, up 53% or 58% on a constant currency basis. Mobile ad revenue in Q4 doubled to \$2.5 billion or 69% of ad revenue compared to approximately \$1.2 billion or 53% of ad revenue last year. Desktop ad revenue was up approximately 1% despite the fact that overall desktop usage was down. In Q4, the average price per ad increased 335%; well total ad impressions declined 65%. Similar to last quarter, these price volume trends were primarily driven by the redesign of our right-hand column ads which rolled out in the third quarter.

Total payments and other fees revenue was \$257 million, up 7%. Note that the growth was driven by revenue from acquisitions made in the past year. On an organic basis, payment revenue from gains, which represents the substantial majority of our payments and other fees revenue declined 10% compared to last year. As previously noted, we expect this trend to continue as desktop usage declines.

Turning now to expenses; our Q4 total GAAP expenses were \$2.7 billion, up 87%, and non-GAAP expenses were \$1.6 billion, up 50%. GAAP expense growth was driven primarily by significant stock-based compensation and amortization expenses related to the WhatsApp acquisition.

Non-GAAP expense growth was driven primarily by increases in headcount related costs, cost of revenue and marketing expenses. On a full year basis, our 2014 GAAP expenses were \$7.4 billion, up 47%, and our non-GAAP expenses were \$5.3 billion, up 34%. We ended the year with roughly 92,000 employees, up 45%. Overall, we remain very pleased with our ability to attract and retain top tier talent.

GAAP operating income was \$1.1 billion in Q4, representing a 29% operating margin, down from 44% last year; again, primarily due to expenses related to our recent large acquisitions. Non-GAAP operating income was \$2.2 billion in Q4, representing a 58% operating margin consistent with the margin last year.

Interest and other income and expense was a net expense of \$19 million in Q4 versus a net expense of \$3 million in Q4 last year. This increase in expense was primarily due to foreign exchange losses resulting from the periodic remeasurement of our foreign currency balances during the period. In Q4, we benefited from the reinstatement of the R&D tax credit. Our GAAP tax rate was 37% and would have been approximately 42% excluding the benefit of the tax credit.

Our Q4 non-GAAP tax rate was 31% and would have been approximately 32% excluding this benefit. Q4 net income was \$701 million, or \$0.25 per share, and non-GAAP net income was \$1.5 billion, or \$0.54 per share. In 2014, we spent \$1.8 billion on CapEx and generated over \$3.6 billion of free cash flow. We ended 2014 with \$11.2 billion in cash and investments and a net operating loss carry forward of approximately \$4.5 billion.

Turning now to the outlook, let me start with revenue. We're still in the early stages of building out many aspects of our ads business and we remain optimistic about our long-term opportunities. Looking at 2015, there are a couple of things I want to note. The first involves how the recent movements in exchange rates might impact our 2015 revenue. Assuming exchange rates were to remain constant at today's level.

We would expect that our total revenue in 2015 would be approximately 5% lower than it would be under 2014 exchange rates. Note this 5% represents the expected reduction in 2015 total revenue, not the reduction in the year-over-year growth rate. And second, we are reporting revenue from Atlas, LiveRail, and the Audience Network on a net, not a gross, basis. So the growth in those products will have less of an impact on our overall reported revenue growth in 2015.

Turning now to expenses. We're tightening our ranges modestly given the better visibility into 2015 spending. We expect that our full year 2015 total GAAP expenses will increase 55% to 70% compared to 2014. We expect that our 2015 total non-GAAP expenses will increase 50% to 65%. A simple way of thinking about our investments is across three categories: people, product, and infrastructure.

On the people side, we enter 2015 with 45% more employees than we did a year ago and we will continue to invest in and grow the talent base

throughout the year. In terms of product, we are investing to build great experiences for people, marketers and developers, ranging from our existing products and services to newer initiatives such as ad-tech, Internet.org, Oculus, and WhatsApp. We'll also invest in marketing to support all of these initiatives which, as I noted, was a driver of expense growth in Q4.

Turning to infrastructure. We continue to build out our global infrastructure to enable billions of people around the world to connect, message, and share with each other. We will be investing in data centers, our network and servers to grow our existing services and support newer initiatives such as video and our global connectivity efforts through Internet.org. We anticipate our 2015 CapEx will be in the neighborhood of \$2.7 billion to \$3.2 billion.

We expect stock-based compensation for 2015 to be in the range of \$3 billion to \$3.3 billion approximately half of which is related to our prior acquisitions, most notably WhatsApp. We expect amortization expenses for 2015 to be approximately \$700 million to \$800 million. And finally, we anticipate our Q1 and full year 2015 GAAP tax rates to be in the mid to high 40s and non-GAAP rates to be in the mid to high 30s. In summary, Q4 caps off a great year for Facebook in which we executed well and also made some very important investments for our future. In 2015, we are focused on continuing to execute on the business and investing in our long-term mission and success.

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

Question-and-Answer Session

Operator

We will now open the lines for question-and-answer session. [Operator Instructions] Your first question comes from the line of Heather Bellini with Goldman Sachs. Your line is open.

Heather Bellini

Great, thank you. I just had two quick questions. Sheryl or Mark, I was just wondering, from a brand advertising perspective, is there a way you could share with us how your conversations with these advertisers have been trending over the past 12 months, how they've been evolving, and kind of how they are thinking about the video opportunity? And then, Dave, I just wanted to follow-up on your question about total expense guidance, because in the past you've given a 5-point range, I believe, for total expenses and this year it's 15. Granted, you did tighten it, which we appreciate. And just wondering the parameters around how we think about the low end versus the high end?

Sheryl Sandberg

It's a great time for the brand question because over the past few weeks I've spent a lot of time kicking off 2015 with our largest agency partners and largest clients. And I would say that people remain really excited about Facebook, but people are bigger believers because we've had an opportunity to do more measurement over the past year. I think there are few things about the Facebook platform that are really exciting for brand marketers. The first is the creativity and storytelling and certainly as you mentioned video is a big part of that because video is a format that marketers have used for a long time to building those connection to brands.

And the second is measurement. And what clients want and what they should want is an ability to look at their ad spend and see how effective it is, not just in the brand less metrics even though those are important but in moving products off shelves. And over the past year and half the investments we've made in building out that measurement have paid off. So when I sit down with clients at the beginning of this year compared to last year, we have more actual case studies of marketing we've done with them. We've been able to ad test, Facebook ads versus no Facebook ads and what the effectiveness is on their sales. And I think across the board, we're showing very healthy, very competitive ROI. The opportunity and the challenge now is to [indiscernible] even for our largest clients globally, we still represent a really small part of what they do. And so, it's on us to prove to them that the results we're showing them in these smaller tests can happen in more bands and more countries with a larger part of their business.

Dave Wehner

Hi, Heather, it's Dave. So just - yes, just following up on that where we land in the range of guidance on [indiscernible] will depend on a number of different factors. It's going to depend on how successful we are at hitting our recruiting goals, how much we ramp in areas like marketing and how could we deploy our capital against our CapEx plan and then how we execute against our plan of ramping investments in new areas like Oculus, WhatsApp, Internet.org, et cetera. We feel good about where we are. We're going into 2015 on a high note. So I feel like we're making these investments from a position of strength and excited about the opportunities to put more capital to work in 2015.

Operator

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

Eric Sheridan

Thanks for taking the question. Mark, I wanted to follow-up on your comment around search, its early days, but what the company is seeing in terms of the way people are interacting with the new search functionality inside Facebook broadly? And then maybe tying it back to advertising, what that might mean for closing the loop with some of your small and medium sized business advertisers and maybe even the places initiative long-term? Thanks.

Mark Zuckerberg

Sure. So, our view on this is that there is a lot of unique content that people have shared in Facebook, a lot of personal content, recommendations from friends that you can get that you just wouldn't be able to get through a traditional web search service or other app. And if we're on this multiyear voyage to basically index all the content and make it available to people and rank it well. We started off by launching graph search which I think included more than a trillion different connections in the first system.

And the second round of the search progress that we just started rolling out at the end of last year was post search, which now has index more than I think a trillion posts, which I mean the sizes of these corpuses are bigger than anything in a traditional web search corpus that you would find. So it's an interesting and fun challenge to make this work. We're seeing that that people immediately understand how they can use this and find content that they seen in news feed before or that they've posted with just a few keywords.

And we're excited about that, but there is a lot more to do. So that we're not really thinking about advertising in it yet on the scale that our community operates, a billion searches per day is actually not that big compared to what we think the opportunity here should be. And we're just continued to keep on working on it because there is just a lot of unique value that people should be able to get their friends on Facebook research.

Operator

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

John Blackledge

Great, thanks. Just wondered if you could provide your view on Facebook as a video platform given that video views per day increased to 3 billion in December from 1 billion in September of 2014 and how we should think

about the video content mix over the next couple of years, and just same kind of topic, if you can give a sense of user and advertiser feedback on the autoplay video ads. That would be great? Thank you.

Dave Wehner

I'll talk about the consumer product and then Sheryl can jump in about as. So what we are seeing and I alluded to little bit in my opening remarks is that there has been this evolution of content on Facebook over the last 10 years, towards richer format that convey more of the moment that people care about. So if you go back five years ago, a lot of Facebook was primarily capture it in a little bit of photos and also I think the primary mode that people are using to share is photos and they wouldn't be surprised up in the future that shifted more and more towards videos.

So we're thinking about how to enable consumption first to the content of people who are sharing, and this year an increased focus on new opportunities around production so it is easier for people to capture the moment that are important to them, create higher-quality moments and pictures of content out of those and increase their experiences through that. So there is a lot more to do here and I think the business going to be one of the big trends over the next three to five years, is the growth in video and richer content in our service.

Sheryl Sandberg

From a consumer and marketers feedback on video ads point of view, there is two things really go together. It's exciting that we've gotten to 3 billion video views per day, because that means consumers are using video ads and enjoying them on Facebook and in news feed. The way we think about our ads product is we want them to blend in with the consumer experience. And so the fact that we have this much consumer video on Facebook, means we have an opportunity to grow our ad business and that's exciting for marketers.

Operator

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

Justin Post

Great, it looks like you did about \$9 of revenue in the U.S. per MAU which implies over \$30 run rate which is impressive. Sheryl may be the first question to you. How do you grow that from here is it usage, is it more higher ad loads, is it the mix of ads or is it targeting may be some thoughts

on how you grow from there. And then Mark, if you look at other your three platforms WhatsApp, Instagram, Messenger and other things. You probably have in mind. Can I monetize anywhere as well as Facebook if you look out your five year plan? Thank you.

Sheryl Sandberg

Yes, thanks for the question. When you think about what's happening, certainly the growth has been good, but it's still true that marketing dollars have not followed consumer time and the same percentages. So in the U.S., mobile gets 25% of consumer media time, but only 10% of the ad budgets. And to take one comparable example, that means that for every consumer hours spent on print, marketers spend \$1 and they spend \$0.07 per hour on mobile, which means that we have an opportunity to grow. One of the most important ways we grow is not just bringing more marketers into Facebook, having them use more of our ad products, but as you mentioned better targeting.

A more relevant ad is a better ad experience for consumer - for consumers, but also drives them much higher returns from marketers and since we're running an action, as our ads get more relevant and we provide higher ROI. We should be able to continue to grow. I think we've done a good job over the last year, making our ads more relevant. I think most people on this call would say that you seek more relevant ads than you used to a year ago, but I still think, you know, some of the Facebook ads still have rooms for improvement in terms of relevance. And so, we see a lot of room for improvements there, both in the ROI we deliver and in the experience we can provide to consumers.

Mark Zuckerberg

Yes, so I will add something to that just on the side of how we think about value through Facebook and I will talk about the other apps. In terms of the product developments that we do here, we have four major groups inside of the company. This is kind of how our company is organized. We have one which is focused on growing the community, one which is focused on kind of increasing content consumption and people's engagement, another which is focused on kind of efficiency and helping people to get the most value out of each moment that they're spending in Facebook. And then the fourth group is our core business, which is focused on helping people to see the best ads and basically make the most money per moment that people are spending at the lowest cost in most efficiency in terms of serving people.

And there is, I think, big upside in each of those four categories. I mean our community is growing. I mentioned in our comments upfront that time spent

across our services is growing by - grew by 10% year-over-year per person, which is pretty meaningful. Utility and efficiency are increasing and of course the ad business per person and the efficiency of our services are both increasing as well.

So I am pretty excited about that and think we're organized in a way where we can continue visiting of that. The other opportunities, Instagram, Messenger, and WhatsApp, I am really excited about and I do think that they're going to reach the level where they contribute to our business in a pretty big way, but it's really important to get this right and not rushing. And you know what I would say around messaging, as we're pretty early in that cycle, we are about where Facebook was in around 2006 or 2007 where at that point Facebook was really just a consumer product.

There were no businesses in the ecosystem. And a lot of people were telling, okay, don't put better ads in. And that's not wrong. I didn't think that that was going to be the right way to build the products or build the business. So instead what we did was built pages, which was a way for businesses to interact for free in the system and start creating organic interactions between people and business. And so we could figure out what - the people are using Facebook 1 and from businesses within Facebook and we built more tools for pages and businesses to engages.

And our recent success with advertising is really just built on some of those organic interactions between people and businesses. And what you see in Messenger and WhatsApp now is we're still in the early end of that curve where the interaction is still primarily people to people and businesses are starting to figure out in the case of WhatsApp much less than Messenger so far. What the organic interaction is, but we're going to have to go through a whole cycle of figuring out how that works before it really make sense to start monetizing them in a big way. But yes, I mean, I am a big fundamental believer and that these are going to be very big contributors to our businesses over time, but we just have to do it right.

Operator

Your next question comes from line of Ben Swinburne with Morgan Stanley. Your line is open.

Ben Swinburne

Thank you, two questions. Sheryl, can you talk about where we are in the North American market versus your other regions in terms of sort of advertiser maturation and acceptance of the Facebook platform? The growth rates in North America to be really impressive despite of being your biggest business when you look at the ARPU trends and as compared to the other

regions that was tend to be - seem to be moderating a bit. And then I was wondering, Dave, if you could talk about the pricing growth which actually accelerated from Q3 to Q4, can you give us some color there. I know there were changes to LiveRail, but anything else you would add about why there was a huge acceleration in pricing growth? Thanks.

Sheryl Sandberg

North America remains a really important market for us. And as you said, we've had growth. We're very happy with. It's still true that for any kind, no matter how big they are for us, we represent a really tiny part of their ad spends and we represent an underinvestment in terms of where they can reach their consumers. So we believe by continuing to make these investments, we can really continue to grow. We get 20% of people's time on mobile phone in the U.S. between Facebook and Instagram. We don't get close to that in terms of anyone's marketing spend or the time they may spent. We say to our clients over and over again is that we want to drive their business.

And that's what probably the most important thing we're doing for these large North American spenders is around the measurement work we've done. Two years ago, we were not able to measure all the way through to purchase off the shelves and now we can. Yesterday, we rolled out a product we call lift, which is really the next consideration of our measurement capabilities. That enables larger customers to go and set up ads with control test groups, and so they can AB test. This group of people saw Facebook ad, this group of people didn't and they can measure all the ways through to conversion of whatever they're measuring whether it's an online conversion to a sale.

We think the measurement out there online and digitally is not particularly accurate. People don't have real people based measurement through our investments in Atlas and through our investments in - the core Facebook measuring tools. We think if we can show the ROI marketers are getting and we can increasingly do so, we can continue to penetrate the North American market.

Dave Wehner

Ben, its Dave. So also just building on what Sheryl said worth noting that the drop in the value of international currencies impacted our results outside the U.S. to some of what you're seeing here is a result of that. It reduced year-over-year revenue growth rate by 7% to 8% in the different international regions. So that's a big reason why you see the U.S. doing much better as well as the fact that's just more advanced market in what

we've done in terms of just building up the advertiser base and getting into option of our best targeting products as Sheryl was talking about.

Going to your question on pricing growth, I just reiterate what I said in my comments, it's largely due to the right hand column redesign and then also the shift to mobile where we don't show right hand column ads. So that's really what's causing the pricing shifts. Then fundamentally, we just continue to get better targeting and that drives better engagement. And as we get better engagement that drives better ROI for our advertisers, which ultimately, I think as Sheryl commented on earlier, gets reflected in better pricing of our ads. And that's a big opportunity for us and we are seeing that we're getting better and better of driving engagement from the ad units that we have and getting the right ad in front of the right person. So that's a big factor as well.

Operator

Your next question comes from the line of Douglas Anmuth with JPMorgan. Your line is open. Douglas Anmuth, your line is now open. Your next question comes from the line of Brian Wieser with Pivotal Research. Your line is open.

Brian Wieser

Hi, thanks for taking the question. First, I was wondering if you could talk about the degree which you think premium video content is - or is not necessary to opt when we capture budgets from advertisers that might otherwise have gone to TV, you have a couple of initiatives around ABC and NFL. So I was curious to get your thoughts on that? And separately, I am not quite sure you're using Atlas and specially those - or new to Atlas. Do you have a sense that your spending on digital media is changing or if so how - alternately are they just happy with campaign management tools? Thanks very much.

Sheryl Sandberg

So on video ads what really matters is that consumers are using video on Facebook, because that gives us an opportunity, one, to provide a great consumer experience, but two, to have ads in ad-tech consumer experience. If the other consumer video on Facebook, video ads and new feed will be very joined, as a percentages of the video you're seeing, video ads gets nicely into that experience. I think it matters as much what the video content is and so well we are certainly exploring some premium content as he said, we have an Annabelle Verizon test out there in the public ad. We're already seeing pretty exclusive growth without that kind of premium content in the system in large numbers and so we'll continue to figure out. We're

certainly open to increasing video content either way. But we haven't quite figured out what the mix needs to be and right now the growth is very strong.

In terms of Atlas, we just relaunched this fall and we're just seeing as deals get done in broad adoption. So I think it's too soon for us to report that Atlas drives an increase in digital spend or an increase in any particular kind of spend but you should believe really deeply, which is that Atlas is going to revitalize marketing by making the measurement more accurate. If you look at how digital ads are being measured. They are being measured based on a cookie based world that assumes that people have one device, largely a PC. And that is not real, consumers have phone, they have tablet, they have PC's as well and the ability to understand that one person to serve an ad and measure all the way through correctly. We think it's going to massively improve the efficiency in the system as we get the battle.

Operator

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

Peter Stabler

Thanks for taking the question. One for Sheryl. Sheryl, as you push further toward monetizing off platform inventory. I'm wondering if you could speak to state of your relationships with premium publishers. There is a narrative out there, we sometimes encounter that, that publishers are growing a bit concerned about the power you guys wheel, particularly as you push into monetizing off the platform. Thanks very much.

Sheryl Sandberg

Our audience network efforts are still pretty new. We have a goal of serving more relevant ads to people off Facebook which will provide greater reach for Facebook marketers and also a better opportunity to monetize for publishers. We are seeing some nice results as Shazam reported that using audience network increase the revenue from ad networks by 37%. We believe that working with publishers, if we can increase the value of their inventory by providing more relevant and targeted ads. They are going to be really happy with that opportunity and we are in the early stages of finding those partners.

Operator

Your next question comes from the line of Anthony DiClemente with Nomura. Your line is open.

Anthony DiClemente

Thanks a lot. First for either Mark or Sheryl on the subject of public video content and what you guys are doing to increase the amount of a video in the News Feed are there things in terms of actors, celebrities, public figures that you can do to economically incentivize those creators of, let them, the higher-quality user generated content onto the Facebook platform be at a revenue share what have you, were relative to the economic for those types of folks on competing online video platforms. And then just one quick one for Dave, you mentioned - as you mentioned you will be shifting the accounting for Facebook audience network and live rail to be for revenue to be net of pack in 2015 versus growth in 2014. I'm just wondering why [indiscernible] to do that and is there any you can help us with in terms of order of magnitude of that shift. Thanks.

Sheryl Sandberg

So, on premium video content, we haven't figured out exactly how important this is to the ecosystem or how much we are going to invest or what kind of monetization we are going to offer. Video is a growing quite nicely through the ecosystem right now. we have made a lot of investments in public content working with public figures to use the Facebook platform, we're by far the largest social platform and increasingly you are seeing public figures, everything from news broadcaster to journalist at a public figures do a lot on Facebook and that's important to us.

Because it provides the kind of sharing people want, people come to Facebook to share with their friends and family but they also come to Facebook to connect with everyone from politicians to journalist to celebrities they want to connect with and get news and we definitely seeing public content grow as a percentage of what people get. We also had some nice wins with the Golden Globe this year other things we are doing to get people doing some partnership we did [indiscernible] with CNBC to show how we can help content creators increased their distribution and reach people directly on Facebook.

Dave Wehner

Yes, Anthony, it's Dave. So, just to be clear that net revenue recognition for those products that's how we did it in Q4 as well those are all small today, but there is not a change in accounting in 2015 that's how we accounted for those products in Q4, as far as the net versus gross we just evaluated all the facts in circumstances and made the judgments that net revenue recognition with the most appropriate treatment here.

Operator

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

Ross Sandler

Thanks. Just following upon the video concept how important is it that Facebook post the videos versus I guess sharing clips from third-party players in the feed and what percent of that \$3 billion streams daily is Facebook embedded versus from other players and are you able to monetize videos from third party players today there is a way to walk around that in the future. Thanks.

Dave Wehner

This thought that we shared of 3 billion a day is all made on Facebook. So there are probably other shares from other video services as well. But the way that there was looking our services or as if there is links to other sites, and the reason why I think made a video is so valuable for people using our service is that when someone uploads a video to Facebook directly we can optimize how it delivers right. So we can make it autoplay. We can find the right quality and bit rate to send down to the person based on their connection overtime. And optimize all kinds of different things. So what I think people are finding from public figures to everyday videos that people are uploading is that the best experience that you can get is by uploading content native to Facebook, which is, I think the big part of the growth that we seeing there.

Operator

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

Colin Sebastian

Great, thank you. I wonder if it's possible to distinguish how much of the growth in advertising revenues can be attributed to changes in organic compressions. And how you balance the desire of business partners to contribute content to feeds versus monetization. Thank you.

Dave Wehner

That's right. Exactly understand the question. But let me see if I can take a crack at it, Colin. I mean, we are seeing obviously great growth in DAU, which is up 18%. We are seeing growth in times spent across the network up 10% per DAU. So you got those sort of underlying drivers of engagements driving growth. We are also monetizing at higher rates

because we are able to get better targeting into the ads and get better conversion for advertisers. So that's reflected in better pricing. So there is a number of different factors that are coming into play. But clearly driving organic growth in engagement, it's critical in the business and we are seeing good success there.

Mark Zuckerberg

One thing that I'd just add to emphasize here because its I think there have been a couple of questions so this is the fact our primary strategy for growing the ad business is increasing the quality of the content, not increasing the number of ads to our story that people are seeing on Facebook. So there are impacts like as people consume more content on Facebook, within the ratio of ads that organic content that will showed might be more ads.

But overall, our strategy is much less to that increasing the volume of ads and much more about increasing the quality of the content and the quality of the targeting to get the right content to the right people. And this is a pretty controversial strategy internally and we will ensure that is going to work out. But for the last year it's really fueled our growth in a good way and we feel very confident that this is the right path going forward as well.

Operator

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

Carlos Karjner

Hi, I have two quick questions. First when you say that time spent decreased 10% year-on-year it is roughly uniform across your geographic regions. And secondly, Mark I think we have Mark's in every earnings call you talk to investors for a considerable amount of time about Facebook first to connect the world, and specifically about the Internet.org which suggest you think this is important for the investors. Can you clarify why you think this most of the investors and importantly why you think Facebook can make a significant difference of scale even that you're unauthorized per user in emerging market is about five bucks to connect and the user who has no device accomplish maybe at least in terms of dollars. Thank you.

Dave Wehner

Well, it matters to the kind of investors that we want to have. Because we're really mission focused company and we wake up every day and make decision because we want to help connect the world and that's what we're

doing here. So part of that the subtext of your question is that yes, if we were only focused on making money we might put all of our energy on just increasing ads to people in the U.S. and the other most developed countries. But that's not the only thing that we care about here.

So I do think that over the long-term that focusing on the helping connect everyone will be a good business opportunity for us as well. And we may not be able to tell you exactly how many years that's going to happen and but I think these countries get more connected the economics growth the ad markets growth and Facebook and the other services in our community or the number one and number two, three, four, five services that people are using then over time we will be compensated for some of the value that we have provided but this is why we are here, we are here because our mission is to connect the world and I just thinks its really important than investors know that.

Mark Zuckerberg

And Carlos on that time spent per DAU that we are just giving the one point, we are not breaking any thing out by region.

Operator

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

Paul Vogel

Great thank you very much. I am just curious given the impact that currency had on the quarter on growth rates outside the U.S. is there any market should be fall out particularly either better or worst that might be massed by the currency swings number one. And number two I'm just sort of curious if currency does stay where it is, does it all impact sort of your spending plans or how and where and when you'll invest? Thanks.

Dave Wehner

Hi, Paul, it's Dave. It - sort of taking your second part first we're not really making investments decisions on short-term fluctuations in currency. So I would say in general no, it's not effecting those decisions. There are certainly big macro effects that are going on and part of those are what's driving a lot of the currency fluctuation as well. So you have regions that are certainly growing more quickly and growing more slowly. So from a macro perspective, the United States is doing better in terms of growth versus Europe versus Latin America. You see those compounded in both currency and sort of macroeconomic conditions in those regions.

So I think generally we've got more favorable market conditions in which to operate in the U.S. Overall, I would say the business is driven by the fundamentals of us, continuing to execute against our plan. So whether you're in a market that's suffering a little bit from a macro economic headwinds, we're still - we still have the best mobile product in the market, in that market and we're growing. So, I think at the end of the day, it's the fundamentals of our business that are going to drive our success and we're kind of focused on that. The one of these at least give some color around how the currencies might impact the 2015 results.

Operator

Your next question comes from the line of Robert Peck with SunTrust. Your line is open.

Robert Peck

Yes, I have two quick questions. One Mark, you've spoken much here today about the e-commerce opportunity in front of Facebook and particularly the buy button. Could you elaborate a little bit on plans around e-commerce than what you see that opportunity? And then Dave, I was wondering for investors, could you maybe go through your view and how you look at capital efficiency and ROI so that whether it would be acquisitions or CapEx or even OpEx. How you look and see you're getting a good return on that spend. Thanks so much.

Sheryl Sandberg

Q4 is a really important quarter in general, but its particularly important quarter for e-commerce, so it's a timely question. When you think about buy on Facebook, it's a [indiscernible] U.S. we started last quarter and enables people to buy on pages. To be clear, you're not buying from Facebook, you're buying directly from the merchants and it's really an SMB product to give them capability they haven't had. We'll see what happens in terms of where people convert whether it's on Facebook, but we think the opportunity to connect consumers with the product that they then purchased is a really big one where we play in that most directly, it's a time and attention consumers have as well as the information to do very relevant advertising and we're going to stay focused there.

Robert Peck

Robert, I think the bulk of the investment that we're doing is really focused on the capital in the OpEx to deliver against the core mission of enabling billions of people to connect and share. So for the most part, we're looking at what should we need to deploy to deliver against the mission to deliver

against our overall financial results. There're places where we can individually takeout specific projects whether it would be M&A or specific capital investments and then we'll look at those on an IRR basis for specific projects, but you have to recognize that we're basically one large business and we're operating against capital deployment against delivering against the objectives of that business. So that's the bulk of the spend that we do, but certainly we look at things on an ROI basis on individual project basis as well.

Operator

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

Arvind Bhatia

Thanks for taking the question. Just quickly on WhatsApp, I know this focus will be user growth for a while, but in the future as you do turn on the monetization engine, just curious what are some of the primary ways that you're assuming growth will come from advertising - or games perhaps and also on WhatsApp user growth would you be able to callout where that's coming from? Is there any particular areas that are stronger and curious how that's doing in the U.S.? Thank you.

Dave Wehner

So you're right that the focus for WhatsApp is on helping to connect a lot more people, all right. So when John and team joined us, one of the first things that we agreed on and why I think it made sense for them to join is that now they can focus for a few years on getting to one billion more than that and continuing to scale beyond that. SMS is an incredibly global and universal product and I think WhatsApp just has a huge opportunity to third billions of people. In terms of what the business looks like, I mean at the end of the day, it's a distribution business like Facebook and Instagram, how you most effectively convert that into business opportunities for customers whether that's through payments or ads or other different kinds of structures.

We'll figure that out what the optimal thing will be, but the first order of thing to do is to helps our billions of people here, help to continue to increase engagement, I mean people are spending a lot of time in WhatsApp, sending more than 30 billion messages a day, which is really crazy when you think about the volume there compared to the global SMS volume overall. And I think if we do that there will be a number of opportunities. I mean people ask me this question awhile ago about - when we talked about games on Facebook as well.

And I always talked about our canvas business on desktop even though its payment is actually the same thing as our business on mobile around app install and engagement. What developers test for is distribution and whether they're doing that through payments or ads or whatever it is, it kind of is all the same. The most important thing is to help people connect, help people and businesses connect and create business opportunities and then you get a small amount of the value that you're creating on top. So that will play out over the next set of years and it's one of the intellectual challenges that I am really looking forward to tackle.

Sheryl Sandberg

Operator, we have time for one last question.

Operator

Your last question comes from the line of Mark Mahaney with RBC Capital Markets. Your line is open.

Mark Mahaney

Great, thank you. Sheryl, the size of the ad revenue that the Facebook is generating in the growth, there is - these are large budgets that are shifting over to Facebook. Any commentary on where you think those budgets are coming from? What are the sources of funds? And then I know, Dave, the engagement levels seem to be rising, there seem to be a little slip in engagement levels and the DAU over MAU ratio in Asia and rest of the world at least sequentially. Is that just noise or is that a reason to panic? Thanks.

Sheryl Sandberg

I don't think there is any single source of where the dollars are coming from certainly as consumer time and attention is shifting to mobile, the marketer time and attention. We pay a lot of attention to the marketer segments we work with that we're seeing strong growth from brand from direct response like e-commerce from SMBs and developers. And we stay pretty focused not really on the source of where the money is coming from, but what are the objective people are spending against on Facebook, so that we can meet all the different objectives. We understand that in order to continue to grow, we want to continue to grow. We're going to have serve multiple objectives on the Facebook platform and that's what we're focused on.

Dave Wehner

Mark, I think the simple story as we're really pleased with how we're executing on the engagement front, 64% of people is coming to Facebook

monthly coming on an average day as we think a great stat. I think small changes are pretty much noise. I mean we're really happy with it. We talked about things like the video engagement. Mark shared some stuffs like photo - how much photo sharing is going on across our properties. So overall I think engagement is a great story for us and we're really happy with it.