

FACEBOOK, INC.
Q3-2015 Earnings Call
November 4, 2015
2:00 p.m. PT

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 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 in our quarterly report on form 10-Q filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

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

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

Mark Zuckerberg

Thanks Deborah, and thanks everyone for joining us today.

This was another good quarter, and we continued to grow the size and engagement of our community. 1.55 billion people now use Facebook every month, and more than 1 billion people use Facebook every day.

On mobile, we continue to have a lot of momentum. More than 1.39 billion people now use Facebook on mobile devices, including more than one billion on Android. 50 million people also use Facebook Lite, our app for people on low bandwidth connections, and one of our fastest growing interfaces. This is a great sign of how our mobile strategy continues to make progress across markets, devices and platforms.

And when it comes to our business, we're also pleased with our results. This quarter total revenue reached more than 4.5 billion dollars, and advertising revenue grew by 45 percent from a year ago.

We've already accomplished a lot this year, and these results show how we're getting stronger as a community and as a business. But we want to serve the entire global community, not just the people who are on Facebook today. Connecting everyone is one of the fundamental challenges of our time, and to achieve this we need to continue innovating faster and investing for the long term. That means continuing to invest in our core products and services, as well as technologies and strategies that allow us to achieve a truly global reach over time.

Let's talk about how we're doing this. And let's start with how we're improving our core products to better serve our existing communities and businesses.

This quarter we introduced some big updates on Facebook to give people more options for expressing themselves. We began rolling out an improved mobile profile design, including the ability to add a profile video instead of just a photo. We also started testing Reactions, a new version of the Like button that provides more ways for expressing love, awe and sympathy. We think this is going to provide a much more engaging experience.

Another way we're working to improve people's experiences on Facebook is by helping them to share many different types of content with different groups of people they care about.

One example is our progress with Groups on Facebook. More than 925 million people now use Groups each month, and in some countries more than half the population is participating. From a youth organization in Chicago to aid workers dealing with the refugee crisis in Europe, we've seen many inspiring examples of people using Groups to collaborate.

Video is another area where we continue to make progress. On average there are now more than 8 billion daily video views on Facebook, and more than 500M people who are watching daily. To offer even more engaging video experiences, we've added live video to our Mentions app for public figures and we now support for interactive 360 videos in News Feed. We've also rolled out new video tools for Pages and begun testing a dedicated videos section on Facebook. Over the next few years video is going to be some of the most engaging content online, and by continuing to innovate here we have a chance to build the best place to watch and share video.

And when it comes to serving businesses, we continue to create a lot of value. We now have more than 2.5 million active advertisers on Facebook and more than 45 million small and medium sized businesses actively using Facebook pages. This quarter we continued to focus on helping marketers achieve results while using our ad products, including video and carousel ads, as well as on Instagram. As usual, Sheryl is going to talk more about this in a moment.

Now let's talk about how we're working to develop our next generation of apps and services.

For Instagram, this was a busy quarter. The community celebrated its 5 year anniversary and reached a new milestone of 400 million monthly actives. More than 80 million photos are now shared on Instagram every day, and the pace of adoption among public figures, organizations and people around the world continues to grow really well. When President Obama visited Alaska in September, he used Instagram to document his trip, and this is a great example of how Instagram is changing the way people see the world.

With our efforts in messaging, we're also making progress at building WhatsApp and Messenger both into great platforms with global scale.

Last quarter, WhatsApp reached 900 million monthly actives and continues to be on a path to reach a billion people and beyond.

Messenger has over 700 million monthly actives, and we continue to focus on improving the core messaging experience. A good sign of our progress is the more than 9.5 billion photos now sent monthly on Messenger. We're also building many different tools that can offer useful experiences to people beyond just traditional messaging. One example is M, a digital assistant we introduced this quarter that over time will use AI to help people complete tasks. .

Finally, let's talk about our longer-term efforts in innovation to help connect the world.

With Internet.org, we have a lot of momentum. We've now rolled out free basic internet services to people in 29 countries and overall brought more than 15 million people online –. As we've rolled out the program we've made a number of improvements based on feedback from communities and partners, including opening up our platform for free basic services to all developers who want to build. Meanwhile, our work on new technologies to connect people in most remote regions continues to make progress. This quarter we revealed Aquila, our first aircraft designed to beam internet into communities down from the sky. We also announced a partnership to bring internet to large parts of sub-Saharan Africa using a satellite which is launching next year.

And with Oculus, we're in great position to begin delivering a new generation of shared, immersive experiences. We plan to ship The Rift headset early next year, and Gear VR – our mobile product with Samsung – will have its first consumer release this holiday season, retailing for \$99. We also announced new partnerships with Minecraft, Netflix, Twitch and many other content partners.

Virtual reality has the potential to be the next computing platform that changes all our lives. It's important to also recognize that this will grow slowly, like computers and mobile phones when they first arrived. So we're committed to Oculus and Virtual Reality for the long term.

So that's how we've continued to make progress on our strategy this quarter. The results we've achieved show that our investments are creating a lot of value for our community and the world.

I just want to thank the entire Facebook community, our employees, partners and shareholders for helping us to continue moving forward. We've done a lot, but there's always more to do. Now I'll hand it off to Sheryl.

Sheryl Sandberg

Thanks Mark and hi everyone.

We had an excellent third quarter – results were strong across the board. Ad revenue grew 45% year over year or 57% on a constant currency basis. Mobile ad revenue was \$3.4 billion and grew 73% year over year. Mobile now makes up 78% of our total advertising revenue.

Our business grew across all regions and marketer segments. Like last quarter, we saw especially strong growth in our North America and Asia Pacific regions. Overall, we're really pleased with marketer adoption of our ad products around the world.

Our results show that we continue to make progress on our three priorities – capitalizing on the shift to mobile, growing the number of marketers using our ad products, and making our ads more relevant and effective.

First – capitalizing on the shift to mobile.

People have already shifted to mobile – and this shift is driving engagement on Facebook. The average American adult spends 25% of their media time on mobile, and Facebook and Instagram together continue to account for over 1 in 5 minutes on mobile in the US.

Businesses are lagging behind consumers in making the shift to mobile and we believe we're well positioned to help them catch up. Facebook Pages are already the mobile solution for millions of businesses. Pages now offer better messaging capabilities, call-to-action buttons and new sections that enable businesses to highlight important information.

We're also capitalizing on the shift to mobile by expanding ads on Instagram. This quarter on Instagram we introduced new ad formats and objectives, opened up our API, and launched self-serve ad capabilities. Instagram ads are now available in all countries where we offer Facebook ads, and marketers can manage campaigns across both platforms with the same targeting. We're really pleased with marketer demand for Instagram ads.

Our second priority is growing the number of marketers using our ad products.

In September at AdWeek we announced that we have over 2.5 million active advertisers on Facebook. With more than 45 million active SMB Pages on Facebook, we think there's a lot of opportunity to turn even more of these businesses into marketers.

Marketers come to Facebook and Instagram because we have the best performing mobile ad products – and video is making them even better. Marketers have always loved using video to tell stories. As Mark discussed, video is a natural and growing part of the mobile News Feed experience. Video on Facebook gives marketers not just mass reach but better cross-device targeting and measurement than we believe is available on any other platform. We're especially pleased with the breadth of marketers using video on Facebook, from brands to direct response to SMBs. Over one and a half million small businesses posted video – which includes organic video posts and video ads – on Facebook in the month of September alone.

Video ads complement TV ads. According to a recent study with Nielsen Research, marketers using Facebook ads with TV ads saw higher reach, ad recall, brand linkage and likeability. To share one example, GMC used video and other ads on Facebook to extend the reach of their TV brand campaign highlighting their premium trucks & SUVs. The Facebook campaign drove a 13pt lift in ad recall and a 6pt lift in brand favorability.

We recently introduced Target Rating Point (TRP) buying so that marketers can plan, buy and measure video ads on Facebook the same way they do on TV. We're pleased with the feedback we're receiving on this from marketers and agencies.

Our third priority is making our ads more relevant and effective. We know relevant ads are more engaging for people and therefore drive better results for businesses.

Products like Carousel ads and Dynamic Product ads help improve effectiveness for marketers. Carousel ads show multiple images – and now videos – and drive 30-50% lower cost-per-conversion than single-image link ads.

Dynamic product ads, which allow marketers to upload their product catalogue, are driving ROI comparable to search. For example, Marriott uses DPA to retarget travelers based on their travel search habits and are now scaling globally across their portfolio of brands. LATAM eCommerce company Mercado Libre uses DPA to remarket over 38 million products in over 13 countries. Both are seeing high ROI and continuing to invest.

On the measurement side, conversion lift is helping clients see the real business results they generate from their campaigns. Boost Mobile, a Sprint Brand, showed ads to people eligible for device upgrades. Using conversion lift, they were able to attribute a 4% lift in in-store sales to their Facebook campaign.

Finally, we're continuing to invest in ad tech across Atlas, LiveRail, and the Audience Network. This quarter we expanded the ad formats publishers in the Audience Network can add to their mobile apps. On LiveRail, this quarter we began testing age and gender targeting. LiveRail now delivers 92% - 95% accuracy on age and gender segments across desktop, mobile web, and mobile apps versus an on-target rate of only 31 - 55% when not using LiveRail technology.

I want to take a moment to thank our clients around the world for their continued partnership and congratulate our global Facebook teams on great execution.

Looking forward, we will stay focused on our priorities to continue to build a solid foundation for our long-term business.

And now here's Dave.

Dave Wehner

Thanks Sheryl and good afternoon everyone.

Echoing Mark and Sheryl's comments, Q3 was another strong quarter for Facebook. We generated \$4.5 billion in revenue and over \$1.4 billion in free cash flow.

Growth and engagement of our community again provided a great platform for our strong financial performance this quarter. In September, we reached a new milestone with over 1 billion people using Facebook on an average day, an increase of 17% compared to last year. This daily number represents 65% of the 1.55 billion people who used Facebook during the month of September.

Mobile continued to drive our growth. In September, approximately 1.39 billion people accessed Facebook on mobile devices, up 23% from last year.

Additionally, our next generation of services continued to grow, with Instagram, Messenger, and WhatsApp now exceeding 400M, 700M and 900M monthly actives, respectively.

Now turning to the financials.

All of our comparisons are on a year-over-year basis unless otherwise noted. Additionally, our non-GAAP measures exclude stock-based compensation and the amortization of intangibles.

Total revenue was \$4.5 billion, up 41% or 51% on a constant currency basis. Ad revenue was \$4.3 billion, up 45% or 57% on a constant currency basis.

The strengthening of the US dollar continued to have an unfavorable impact on our revenue in Q3. Had foreign exchange rates remained constant with Q3 2014 levels, our total revenue would have been approximately \$340 million higher.

Regionally, US & Canada and Asia-Pacific were our strongest markets, producing ad revenue growth of 56% and 48%, respectively. Europe and Rest of World grew more slowly at 33% and 29%, respectively, impacted by our currency exposure in both of those regions.

As Sheryl mentioned, mobile continued to drive our revenue growth. Mobile ad revenue was \$3.4 billion, up 73% from last year, representing 78% of our advertising revenue. Revenue from ads served on personal computers was down approximately 8%.

We have been very pleased with the sustained high growth of mobile advertising revenue.

There are a number of important factors contributing to that growth both from the supply and demand side. The drivers of year-over-year mobile revenue growth fell into three main categories:

- First, as Sheryl covered, we have continued to have success driving strong advertiser demand;
- Second, we have grown both the number of people using Facebook and the time that they spend with us; and
- Third, the growth in advertiser demand and ad quality has enabled us to increase ad load over time.

As we have grown mobile advertising, we have remained very pleased with overall engagement levels, user satisfaction with News Feed and the overall quality of the ads themselves.

Turning now to our overall price-volume metrics.

In Q3, the average price per ad increased 61%, while total ad impressions declined 10% on a year over year basis. As I have indicated on prior calls, the changes in our reported price-volume metrics have been driven recently by the change in the number of right-hand-column ads and the shift to mobile.

These factors will have a less significant impact on the reported price-volume metrics going forward now that a full year has elapsed since the redesign of right-hand column ads and now that mobile impressions have grown to become the majority of impressions.

In fact, the quarter over quarter trends already point to that. In Q3 total ad impressions increased 7% sequentially and average price per ad increased 5%.

Total Payments and Other Fees revenue was \$202 million, down 18% compared to last year. The decline was expected and was driven by a reduction in Payments revenue related to games played on personal computers.

Turning now to expenses.

Our Q3 total GAAP expenses were \$3.0 billion, up 68%, and non-GAAP expenses were \$2.1 billion, up 51%. Similar to last quarter, stock-based compensation and amortization expenses related to the WhatsApp acquisition contributed significantly to the year-over-year growth in GAAP expenses. Non-GAAP expenses were driven by increases in headcount related costs, cost of revenue and marketing expenses.

We ended Q3 with nearly 12,000 employees, up 44% compared to last year. We added over 1,000 employees to Facebook in the quarter and we are pleased with the continued strength in our recruiting efforts.

Our Q3 GAAP operating income was approximately \$1.5 billion, representing a 32% operating margin. Our non-GAAP operating income was \$2.4 billion, representing a 54% margin.

Our Q3 GAAP and non-GAAP tax rates were 37% and 32%, respectively.

Our Q3 GAAP net income was \$896 million or \$0.31 per share, and our non-GAAP net income was \$1.6 billion or \$0.57 per share.

In Q3, capital expenditures were \$780 million as we continued to invest in servers, network infrastructure, and the build out of data centers and other facilities to support the rapid growth of the business.

We generated \$1.4 billion of free cash flow and ended the quarter with over \$15.8 billion in cash and investments.

Turning now to the revenue outlook.

We remain focused on growing the number of people who use our services, increasing advertiser demand and improving the quality and relevance of our ads.

Across these dimensions, we continue to see healthy growth opportunities ahead for Facebook and Instagram.

Given the strengthening of the US dollar over the past year, we will continue to face currency headwinds next quarter, particularly in Europe and Latin America.

In addition, we expect our total Payments & Other Fees revenues to decline sequentially from Q3 to Q4, similar to the trend that we have experienced over the last couple quarters.

Turning now to the expense outlook.

We expect the year-over-year growth rate for total full year 2015 GAAP expenses to be approximately 55%, and for total full year non-GAAP expenses to be approximately 50%.

We anticipate our 2015 capital expenditures will be in the range of \$2.5-2.7 billion.

We continue to expect our 2015 stock-based compensation to be in the range of \$3-\$3.2 billion, approximately half of which is related to our prior acquisitions, most notably WhatsApp.

We expect amortization expenses for the full year 2015 to be approximately \$700-\$800 million.

And lastly, we anticipate our Q4 and full-year 2015 GAAP and non-GAAP tax rates to be several percentage points above the respective Q3 rates.

In summary, Q3 was another strong quarter for Facebook. We are pleased with the growth and engagement of our community and the momentum in our business, which together support our ability to continue investing to build our next generation of services and execute on our mission of connecting the world.

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

Operator

Thank you. We will now open the lines up for question and answer session. To ask a question, press star followed by the number one on your touchtone phone. Please pick up your handset before asking your question to ensure clarity. If you are streaming today's call, please mute your computer speakers.

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

Eric Sheridan

Thanks for taking the questions. Mark, maybe one for you and one for Sheryl. For Mark, on virtual reality and Oculus, how do you see the development of the entertainment and content ecosystem around virtual reality playing out in 2016 and beyond? And what's the role Facebook's going to have to play in maybe seeding some of the content and entertainment side of VR.

And then for Sheryl, any color you can give us on Instagram? We've obviously seen a ramp-up now in advertising on the property. How the Company's thinking about ad load monetization, some of the opportunities and how those will be balanced against engagement. Thank you.

Mark Zuckerberg

I can start off talking about Oculus and virtual reality. So the first thing that I want to stress here is that these kind of new platforms take a long time to develop.

So we've said often that we think that virtual reality and augmented reality could be the next big computing platform. But just to put that in perspective and compare it to the development of previous computing platforms, like phones and computers, I think the first smartphones came out in 2003.

And in the first year, I think BlackBerry and Palm Treo were the initial smartphones that came out. I think they each sold in the hundreds of thousands of units. So just to kind of give a sense of the time frame that we're thinking about this and how we expect this to develop, that's how we're thinking about that.

In terms of the actual content, first, we think gaming is going to be the most obvious market. There are around, I think, more than 200 million, almost 250 million people who have either an X-Box, a PlayStation or a Wii. And we think that that audience is going to be the type of people who are going to be very excited about the type of experiences initially that you can have with virtual reality.

And the advantage of that is also that some of those can be single player experiences. They don't require a big network effect or a lot of people having the technology or large installed base.

Once we start getting a bit further along with that, then the next thing that we think is going to be huge is video and immersive experiences, both things that people can create, like the social content that they share on Facebook today, and more professional and premium content, both short form and longer form.

But we'll start to see some experimentation with that. There already is some very good content. But until there are millions of units out in the market, I don't expect that to be a big industry for folks to be investing a huge amount in in 2016.

Then when they're starting to get to be more units, just like every other major computing platform before that, what we expect is that a large portion of what people do in it will be communication and social behavior, and that's where Facebook really has the DNA and experience to, I think, build the best experiences.

And we're investing in trying to figure out what that's going to look like. That's ultimately a lot of what we're extremely excited about for a number of years down the road.

Sheryl Sandberg

On Instagram, we think that with Facebook and Instagram, we now have the two most important mobile platforms out there. And what we bring to this is a common ads infrastructure.

So Instagram ads, now that we've rolled out as we have this past quarter and gotten to a really good product offering, combine the creative format of Instagram, which is very visually compelling and has a lot of engagement from people, with the back-end infrastructure and marketer base that Facebook has.

So now we have self-service ads rolled out. We've rolled out in all countries where we offer Facebook ads. We have new ad formats for Instagram, we are able to do more business objectives, all of which can use the same targeting as we have on Facebook and all of which are increasingly tapping into our measurement capabilities.

On ad load, we have a lot of experience rolling out ads into feed-based products and we monitor it very carefully and we're going to continue to monitor really carefully.

We're also excited about how they work together. To share one example, American Express, working with Digitas, rolled out carousel ads on Instagram that targeted travel-related interest groups for people who are 18 years and older. They then retargeted those same people on Facebook.

And what they created was a really visual journey, using both the format that is Instagram, the format that is Facebook and combining the two platforms with their targeting. We've think we're at the very beginning of what's possible when we combine these two.

Operator

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

Heather Bellini

Great. Thank you. I had two quick questions, as well. One, Sheryl, just to follow up on what you mentioned about Instagram, obviously, it's a very visual experience. I'm just wondering, when you're talking to advertisers, are they viewing this as a separate channel?

So I think there's been some questions as to the incremental nature of Instagram. It would seem like it could be extremely incremental, given these are the two top platforms in mobile. I was wondering if you could talk a little about what the advertisers say about blending the experiences.

And also, a question for Mark. I was just wondering if you could share with us how we might see your content strategy evolve over time and, in particular, just wondering what your view is on longer form content on the video side? Thank you.

Sheryl Sandberg

To the Instagram question, what we see in the short run is that some of the spend on Instagram is incremental to Facebook and some isn't. Some clients are comfortable with Instagram and bringing a new budget to bear.

Some clients are shifting some of their Facebook budget. For us in the medium to long run, we believe that we're not competing between Facebook and Instagram. We're competing with other forms of media. And if you want the most eyeballs, and we think the highest ROI, over time we think that will benefit Facebook and Instagram.

So for us, what we really want is people to experiment and learn and get to experience Instagram as they have on Facebook so that we can make the case and prove the ROI. And then we believe if you look at the consumer metrics of where people were spending their time, we will be able to gain share compared to almost anything else you can buy out there.

Mark Zuckerberg

And to your question about long form content, the more natural starting point for us is shorter form content, which can either be social content or premium short form content.

But the vast majority of the content that's consumed on Facebook, just talking about video right now, is people browsing through feed, they discover something interesting that they weren't necessarily looking for previously. That's very powerful, because that's a behavior that there isn't really anywhere else to do at scale on the internet today in a great way. And then people watch it there or they bookmark it to watch later.

But if you're talking about watching inline and feed, that's not the place where you're necessarily going to see a TV show and then watch an hour-long clip right there. So what we're actually seeing is that a lot of the best -- or at least from my perspective -- TV shows that we see folks like Jimmy Fallon breaking up their show into clips that they can now share to be consumed over social media and on the internet in three- to five- or seven-minute segments, which are more of what people want when browsing through news feed.

I do think over time we will get to more different types of content and we'll build products that serve that. The current market of trying to help people share and experience all these shorter form clips is massive. We are nowhere near serving that as well as we want to.

I actually think in a lot of ways, though, the more interesting question is not in the near term what we're going to do to develop ways to consume long form content, but what traditional media and content producers who have traditionally produced long form content are going to do to chunk their stuff up better, so that way it can be more easily consumed by this big community online.

Operator

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

Douglas Anmuth

Thank you for taking the question. One for Mark and then one for Dave. Mark, you recently spent time in China and India. I was hoping to get some of your key takeaways, both in terms of Internet.org and also about Facebook's potential in China.

And then secondly, Dave, was hoping to get some early thoughts on OpEx for 2016, at least perhaps qualitatively, if you could walk us through some of the puts and takes for next year, Oculus in particular. Thanks.

Mark Zuckerberg

Sure, I can start off with the India and China question. They're very different situations. So India is a unique country where there are 1.25 billion people, more than 1 billion of them are not on the internet. It is the country in the world that benefits the most from connectivity.

And there's a lot of research that we've seen and reports that third parties have put out that show that when you connect to places like India, it makes a very big difference socially and for the economy there.

A lot of us here, everyone we know is on the internet and we think about the internet as an entertainment and basic communication. But if you don't have access to a good school, then getting basic internet access could be your best educational information.

Or if you don't have access to a good doctor, then getting access to the internet could be the only way that you can learn about how to avoid certain diseases or how to raise your kids and help them avoid certain diseases and find jobs and a lot of stuff.

What we find through the research is that for every 10 people that get connected to the internet, just a little less than, or right around one person gets lifted out of poverty and one new job gets created. We're very focused on this. It's a huge priority for the Indian government. And anything that we can do to help there, we think is very good for the world and we're invested in that and we're happy to support.

And Internet.org in India now, there are already more than a million people who now have access to the internet who didn't otherwise, because of our efforts. So we're proud of that. But obviously, that's still very early on. We're only working with one operator currently and part of the country, so there's a lot of room to expand that. And that's just a big opportunity for the internet overall and for India over the next decade, and we hope to play a role in that.

On China, that is a more complex situation. Obviously, you can't have a mission of wanting to connect everyone in the world and leave out the biggest country. So over the long term, that is a situation that we will need to try to figure out a way forward on. For now, the thing that I would leave you with is that people think that Facebook isn't in China at all, and that's actually not true.

Our consumer service isn't active there, but it actually is already one of the biggest advertising markets that we have. Because there are a lot of really big and important Chinese companies who sell a lot of products to people outside of China.

And they use Facebook as one of their primary tools, in a lot of cases, to spread information about what they're doing and grow their customer base. So we're happy to do whatever we can to help develop the economies in both of those countries and they're both long-term efforts for us.

Dave Wehner

Doug, on your question on 2016, yes, we're not going to, obviously, give specific guidance at this time. That will be coming with our Q4 call. But we're focused on continuing to invest heavily in the business across our near-, mid- and long-term opportunities, and we see a bunch of great opportunities to invest there.

So in the near-term, we're focused on growing the community and executing on our existing business. In the medium term, we're focused on those next generation of services, Instagram, Messenger and WhatsApp. And in the long term, we've got the investments we're making in things like artificial intelligence, VR, and obviously, the Internet.org efforts that Mark just spoke about.

Specifically with regards to Oculus and how that could impact the plan for next year, we're, as Mark said, very bullish about the long-term opportunity for VR and excited about the launch for Rift next year. But VR is still very much in the development stage, so it would be early to be talking about large shipment volumes.

Operator

The next question is from Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak

Thanks for taking my questions. I have two, one for Mark and one for Sheryl. Mark, I guess can you talk a little about what factors and metrics you consider when you're thinking about a multi-app strategy versus rolling out more products and offerings on Facebook. There's a difference in kind of Facebook paper Messenger, the video viewer on the platform.

Just be curious how you think about multi-app versus adding more functionality to the mother ship. And then for Sheryl, sounds like there's still a lot of SMBs on the platform that are not yet paying advertisers. Can you talk about some of the biggest hurdles you need to overcome to get more SMBs paying and kind of initiatives you have in place. Thanks.

Mark Zuckerberg

So I can talk to the multi-app question first. So we view the social space as almost this matrix. You can think about it as a two-dimensional kind of grid where there's one axis is the richness of the content that people want to share. Then the other axis is the size of the audience or intimacy of how people want to share. So on the first axis you get everything ranging from text to links to photos to videos to immersive 360 videos. Virtual reality content and kind of this progression.

And on the other axis you get everything ranging from one to one messaging to small group communication to communicating with all your friends at once to big interest groups to completely public. And what we believe is that you can intersect at any point on that. And there will be something interesting to build. So a small group product for sharing video, that's like -- that's going to be a thing.

A one on one product for sharing text or calling, that's clearly a thing. A public sharing and consumption product for video, that's a thing. And what we've tried to do is basically figure out the areas that we think are open and are not currently served by the set of products that the industry has built and figure out a way to offer those.

So one of the big opportunities that I'm really excited about right now is I think that there's a pretty big opening between very private messaging, kind of the one on one messaging products like Messenger and WhatsApp and products like Facebook where you share with all your friends at once or Instagram and in between there what we're seeing is this huge growth of private groups.

And groups remains one of the I think least talked about products on Facebook but I just said earlier we have more than 900 million people are using that every month.

It's a huge thing and it's a big area that we can develop going forward. So we experiment with all these things in terms of some of them makes sense to naturally have inside the Facebook app because you're using the same set of friends and network and connections.

Some of them get clear value by being separate like Messenger for example where we can make sure that everyone has their push notifications turned on which is extremely important for our messaging app. But overall there's just a lot of stuff in this space and the amount that people want to share and communicate is boundless. And that's I think partially why we're seeing the growth that we are with so many of these products.

Sheryl Sandberg

On SMBs, I think it's one of the most compelling opportunities we have for Facebook. That's because I think we solve a really big problem for SMBs, which is how are they going to reach customers. In the United States, which is usually the most advanced market, 35% of small businesses have no web presence at all.

And building a mobile presence is even harder than a web presence because most people don't use mobile web and mobile apps are expensive to build and hard to get people to use especially if you're a small business.

That's why there are 45 million SMB pages on Facebook. These are people who are using Facebook and this free product to create an online and increasingly a mobile presence. And our job is to make sure that free product works for them and then over time bring them into our paid products.

We have 2.5 million advertisers and over 80% of them started on Pages and then started with simplified ad products and that's what we've done over time and will continue to do that. And what you see is that it's as easy for them to use it as profile and we can give them opportunities to do things they otherwise couldn't do. So to what I said in my transcript before, 1.5 million SMBs posting videos in one month alone.

1.5 million SMBs have not posted or created video on any other platform but with us it's cheap, it's very easy to use and that gives us a way to continue to work with SMBs and increasingly grow our business with them.

Operator

The next question is from Justin Post with Bank of America-Merrill Lynch. Your line is open.

Justin Post

Mark, could you talk a little about how much activity you see around events on Facebook and maybe your views on whether Facebook could benefit from political activity or advertising. And then Sheryl, could you talk a little bit about where ad loads are today? Is there still room there? And also just what your feedback you're getting on advertiser ROIs, is there still more room there, thank you.

Dave Wehner

I'll start with the question on ad load. It's Dave. And then Sheryl can follow up on the political question. So Justin, over time ad load has been one of the factors driving year-over-year growth. It's just worth noting that it is up significantly from where we were two years ago. Looking forward, we continue to feel like there are good opportunities to grow the business.

I talked about the three factors that contributed to growth this quarter. Ad demand, users and engagement and ad load and we see all of those continuing to be factors for growth going forward. And then Sheryl, did you want to take a question on the political?

Sheryl Sandberg

I'll take events too. Just as Mark said with groups, events are growing quickly on Facebook. We don't break out by product but we're pleased with the growth. On the elections and political activity and political advertising, we're excited about the elections because we think we give politicians and people a really compelling way to interact.

If you wanted to feel like you were interacting with someone running for office before you had to go to a town hall meeting. And increasingly that's happening on Facebook. So between January 1 and October 7 of this year over 68 million people on Facebook in the US made over 1 billion interactions about the campaign alone and every candidate and every member of Congress is on Facebook now. In terms of the revenue impact, no one vertical drives our business.

We have a very large and diversified business but we think we offer something pretty compelling which is the reach of Facebook with very unique targeting. So on Facebook you can target an ad by district, by interest. Ben Carson ran 240 different ads targeted at different audiences and so we're starting to see candidates use our platform to communicate to advertise and to share.

Operator

The next question is from Anthony DiClemente with Nomura. Your line is open.

Anthony DiClemente

Thank you very much. Mark, on the subject of media content on Facebook, it seems like the big opportunity is for Facebook to be the portal with which to access the short form video content that you mentioned earlier and maybe the idea is to keep the consumption of that content in line or inside the Facebook wall (of the garden).

So the follow-up question that I would have is how do you think you could best partner with the media providers and convince them the merits of bringing their valuable, in some cases expensive content into the Facebook world particularly at a time in media when they're really trying hard to guard their own existing ecosystems. And then a question for Sheryl.

I wonder if you could just touch on the relative growth of branded advertising versus direct response ads. You mentioned total ratings point buying. Can you help us think about the mix of branded versus DR. And for you, do you think that TRP buying and video is going to shift your ad mix more towards branded over time?

Mark Zuckerberg

I can talk about video and the business model around that. So you're definitely right that there's a certain class of content, which is only going to come onto Facebook if there's a good way to compensate the content owners for that.

And we've recently rolled out the business model for this which is for premium content we'll give a revenue share on a portion of the views to the content owners and we've got good feedback so far on that. We're working with a small set of partners to start and we'll roll it out beyond that as that keeps on going.

But it's important to keep in mind that there are a few different reasons why people share content on Facebook and that's just one of the use cases. So there are a lot of people who are sharing content socially because they want to get a message out.

That may not be business motivated. There are a lot of folks who are business motivated but who primarily post content in order to promote something or gain distribution for something and that you can gain value without some kind of rev share. That's why the video ecosystem has grown so quickly before we rolled out a revenue share.

The third class of content which I think is going to be important, increasingly important over time which is the one you basically want to essentially trade the content for money and that is one where you need the rev share to unlock that. We're getting good feedback on that upfront. We're looking forward to seeing how that trends.

Sheryl Sandberg

And our marketer segments we don't break out by segment but all of our marketer segments are growing. We're seeing strong growth in brand and we believe that's because we're delivering on the promise of personalized marketing at scale.

We've worked hard on things that will help brand purchasers feel comfortable on the platform and measure their ROI. So that's where TRP buying comes in. Allowing people who usually by TV ads to plan, buy, measure Facebook ads the same way, enables apples-to-apples comparison that we believe is very strong for our ROI.

We've also worked on brand awareness optimization, mobile polling to measure campaign effectiveness and we're working client by client. Our other segments are growing as well. We're working hard in the direct response area rolling out things like carousel ads and dynamic product ads. One thing that's worth understanding is that all of these different marketer segments often work together. To share one example Ikea wanted to boost their online sales when their stores were closed.

In Norway, most retailers are closed Friday night to Sunday night. So they invested in carousel ads and only showed them when their stores were closed. And they turned a \$35,000 investment in carousel ads into \$2 million in sales which happened precisely when they want it to happen.

That's a direct response ad buy because it's very specific carousel ads product but it's also a brand play for them as they strengthen their brand and get people to interact with them as they want them to.

Operator

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

John Blackledge

Great. Thank you. Two questions. With the explosive video consumption growth and growth in public content being consumed in the news feed, could engagement perhaps materially increase from current levels over the next couple years?

And then on WhatsApp, as it heads towards 1 billion miles and or greater could you give us a sense of how you're thinking about monetization of that platform and perhaps timing of the monetization. Thank you.

Dave Wehner

On engagement, John, I think we're obviously focused across a number of different dimensions to drive engagement. Videos had a big contribution there so that's certainly been helpful in terms of making news feed even more engaging and we'll continue to be focusing on a number of initiatives, public content and just sharing with your friends.

So there's lots that we are working on on engagement to continue to drive time spent. On WhatsApp, I don't think there's a particular magical number with 1 billion users. The focus really for our messaging products is to continue to drive user growth and continue to build great products that are fast, useful, engaging, and fun. And on that front they're both doing great.

Messenger has over 700 million users and WhatsApp obviously has over 900 million users. So the business side is not the main focus right now. We believe there are going to be opportunities as we further scale those properties.

Operator

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

Paul Vogel

Great. Thanks. Two questions. One big picture Mark, a lot of debate around what content is appropriate for Facebook to block and not block. How you decide what to sensor and not sensor in terms of on the content side?

Less big picture but just in terms of fourth quarter, given it's a big retail quarter, any increased testing around kind of direct retail on the platform? Thanks.

Mark Zuckerberg

I can answer the policy question and then I guess Sheryl will take the other one. The guiding principle for us on this is that we want to give the most voice to the most people.

And the idea is that there are all these different barriers that any given person has to being able to share and express everything that they want, from technical barriers, it's really hard to communicate with someone if you're not on the Internet and they're far away; to product barriers, it's hard to share videos if we don't have a good product for sharing videos; to legal barriers, it's hard to share content that your government says is illegal for you to share; and at the end of the day there's also policy and you're in a community and we have community standards for how we think people should communicate in order to be safe.

Even if you have all of the Internet connectivity and the products and the legal framework that you need, if you don't feel safe saying what you want to express then you're probably not going to share it. We see a lot of that online and that's a pretty big issue. Everything from bullying to terrorism, there are lots of reasons why people might otherwise have the tools to share what they would want but feel kind of silenced.

That isn't giving the most voice to the most people. So we feel a responsibility to have policies for our community which limit hate speech and limit things which are going to create just an overwhelmingly uncomfortable environment for people that is going to silence other people's speech. In order to make sure over the long term we are enabling the most people to be able to express as much as possible as they can. And that's the philosophy that we have.

Sheryl Sandberg

On commerce going into the holiday season, commerce is a really important vertical for us and we're working hard to make our ads more effective. So what we're seeing from DPA ads and carousel ads we're really happy with.

We're seeing lower cost per conversion when people do multiple objectives and video. We're seeing lower post per click than single image link ads . And importantly we're also creating better experiences for people. When an ad is more targeted, more relevant. That's a better experience.

So we go into the holidays feeling that we have a really strong product offering certainly the best product offering we've ever had to connect people to the products they're going to buy this holiday.

Operator

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

Rich Greenfield

Hi, thanks for taking the question. When you look at ad quality, I think when Facebook started Sheryl you were really adamant that you were focused on improving the ad quality and really making sure you were serving the highest quality ad to the right person. When you look at Instagram I felt like you took incredible care to make sure that the advertising like every ad was kind of the highest quality.

As you've opened up the API there's a tremendous amount of ads some of them incredibly good quality, some of them of lesser quality. How do you work to make sure that Instagram maintains what you started it with which is incredibly beautiful ads that kind of fit the platform so you don't get criticized by users for pushing not so much the amount of ads but the type of ads.

Sheryl Sandberg

Quality is really important to us because your experience on Facebook or Instagram is about the quality of what you see both in terms of the organic post you see from your friends or public people you're following and the ads as well. What we do is we monitor it carefully. We ramp slowly. We monitor engagement sentiment, quality of ads.

We get a lot of Facebook directly from people who use Facebook. They can X out the ads. If we do we ask them why they're Xing out the ads. We continue to monitor the metrics. We're pleased with what's happened with quality on our platform overall. A lot of the product innovations and investments I've been talking about on this call feed into quality.

So, the carousel ads, they're not just that they're showing products. It's that are more specifically directed at the person. And so a lot of the underlying things we do to build our ad systems don't just feed into revenue, they feed into quality and that's important because over the long run, our quality today is our revenue tomorrow.

Operator

The next question is from Mark May with Citi. Your line is open.

Mark May

Thanks. I had two if I could. We noticed very impressive acceleration in user MAU growth I'm focused on in the quarter. Seemed like it was pretty much in every region of the world.

What if anything can you attribute that to? I know that you seem to be running more TV ads at least where I live. But wonder if anything you could attribute that to. Secondly again on video, as more and more people and businesses are uploading video I assume that there's a lot of good video content on Facebook but I don't see all of it.

Question is really around video discovery. What strategies do you have going forward to improve video discovery from what is today more of a push based model to something that may be a akin to a pull based model where I can enjoy all the great video content that's on Facebook. Thanks.

Dave Wehner

Hey, Mark, it's Dave. Just on the user growth point, we're obviously pleased with the growth we're seeing across the globe in terms of DAU growth, the three largest countries were India, the US and Brazil. So we're seeing good, diversified growth.

Specifically we've made a lot of initiatives to help improve and invest in the Facebook experience in emerging markets and that has helped drive some of the acceleration and growth. So we made a number of product and performance investments there with Facebook Light being a good example of that. The question then was on video and discovery.

Mark Zuckerberg

Also just on the growth point I just think the team that's working on that is executing extremely well. Sometimes it's not that you came up with some brilliant strategy, it's just like really good work consistently over a long period of time. And I think they are.

On video, yes, I mean, right now the strength in our system is definitely through helping people discover content that they hadn't really asked for through news feed.

And a lot of I think what we need to do is give people a way to see all of the videos that page that they like or follow is interested in sharing on Facebook and that's -- there's a pretty clear road map of stuff we're going to do over the next couple years that I'm quite excited about to add some more dimensions to the video experience on Facebook.

We're just so early in this right now. It's pretty amazing how quickly it's growing but there's a lot more to do.

Operator

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

Ross Sandler

Great. I just have one for Sheryl. Sheryl, you mentioned that Marriott and Mercado Libre are both using DPA and seeing comparable ROI to paid search. That's a pretty incredible data point.

So I guess the question is what kind of lift in ROI and overall budget do you see as e-commerce or travel marketers migrate from your first few products like custom audiences and other 2DPA and are the yields you're getting from DPA ads higher than other formats like video and app downloads and those types of things? Thank you.

Sheryl Sandberg

Our goal is to give marketers the highest return they can and over time to capture the amount of budget that's equivalent to the percentage of media time we capture. And we're not there.

Consumers have shifted to mobile and consumers have moved to Facebook and Instagram more quickly than ad budgets and that's the opportunity we have in front of us. What product you use really depends on what you're trying to do. If you're trying to tell a brand story, then you want to do a video ad. If you're trying to sell a direct product then you want to use DPA ads.

All of these products and all of the underlying targeting like custom audiences are designed to help people meet different objectives and we're trying to be really clear on that. If you're trying to move a brand objective, if you want to move favorability or brand sentiment, we can do that and that's often a video ad or one of our branded ads or you optimize for brand awareness.

If you're trying to sell a product you might want to use carousel ads or dynamic product ads and the targeting that is custom audiences underlies all of our product offerings. So our goal is to have lots of different things we can do for our marketers and measure them really deeply all the way through to business results.

Dave Wehner

And Ross, you just asked about yields. The way the auction system works it's going to be just be whatever is the ad that is going to necessarily have the best return is going to win in the auction. It

doesn't necessarily mean you're paying a premium for a given product. And so if we've got a good DPA ad that might win in the auction for a given user.

Deborah Crawford

Operator, we have time for one last question.

Operator

Certainly. The final question is from Mark Mahaney with RBC Capital Markets. Your line is open.

Mark Mahaney

Okay. Let me try going back to future use cases and, Mark, I think this was touched on a couple times.

Can you talk about whether you're seeing greater attempts to do search, the search functionality on the site and how that could change over the next three to five years and also comment on news and to the extent to which you're seeing a rising utilization by regular users of Facebook as a way to get news and what you can do to make that even easier for people if that's something, a behavior you want to facilitate. Thank you.

Mark Zuckerberg

Sure. So on search we already have one very big use case which is people basically using our search engine to look up pages and people who are on Facebook.

And that by itself is already one of the biggest search engines in the world. The next big use case that we've really been working on for a couple of years now and I think is going to -- is starting to roll out and is growing quickly is people finding content on Facebook.

So that's trending. It's people finding posts that their friends or others had posted on news feed that they saw but then might want to go check out later and I think this is going to be a very important part of the video experience as well because one half is push going to news feed and not asking for content but just coming across and discovering it.

And then the other half is pull and going to some experience where you're asking for some type of content and getting to a point where we can do that very well is just going to add a whole new dimension to the service. That's something I remain very excited about. In some ways it's taken a little bit longer than expected to get to a point where it's growing quickly. The People and Page look up part is doing very well. The Post part has taken a bit longer but I'm very excited about that going forward.

In terms of news, I mean, the biggest issue with news today in Facebook is that it is the slowest part of the experience. When you go to load a video and it loads quickly. We made it auto play to load even quicker. You tap on a photo you expect it to expand immediately but you tap on a link and often it can take 10 seconds to load. If you're on a 2G connection somewhere out in the developing world it could take 30 seconds to load. The big initiative that we have here which I'm really excited about is instant articles.

The big thing that they does is just it lets publishers basically put the content on our servers ahead of time and that way when people tap on it, it loads instantaneously and it can be a much more immersive experience.

And we already found from the initial experiments that's we've done that the engagement is positive and we're starting to roll that out more broadly. I think that's going to be a really big deal for improving the experience of reading news on Facebook and it's something that we've been working on for a while and I'm very excited about.

So yes, I would expect that we will see an expansion of sharing and consumption of all of the different types of things that you asked about, news, video, search and the different experiences there and these are some of the big areas that we're investing in and they're long-term investments and they're big investments and we're going to keep on pushing on them.

But I think that's what we need to do to serve our community well and ultimately connect everyone in the world. So thank you guys.

Deborah Crawford

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

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for joining us. You may now disconnect your lines.

END