

**Facebook, Inc. (FB)**  
**First Quarter 2018 Results Conference Call**  
**April 25<sup>th</sup>, 2018**

**Operator**

Good afternoon. My name is Mike and I will be your conference operator today. At this time I would like to welcome everyone to the Facebook first quarter 2018 Earnings 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. If you would like to ask a question during that time, please press star then the number 1 on your telephone keypad. This call will be recorded. Thank you very much.

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

**Deborah Crawford, VP Investor Relations**

Thank you. Good afternoon and welcome to Facebook's first quarter 2018 earnings conference call. Joining me today to discuss our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and Dave Wehner, CFO.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements.

Factors that could cause these results to differ materially are set forth in today's press release, and in our annual report on form 10-K filed with the SEC. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

During this call we 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](http://investor.fb.com).

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

**Mark Zuckerberg, CEO**

Thanks Deborah, and thanks everyone for joining us today.

Despite facing important challenges, our community and business are off to a strong start in 2018. More than 2.2 billion people now use Facebook every month and more than 1.4 billion people use it every day. Our business grew 49% year over year to \$12 billion.

But, as you all know, we have important issues to address. For most of our existence, we've focused on all the good that connecting people can bring. But it's clear now we didn't do enough to prevent these tools from being used for harm as well -- whether it's foreign interference in elections, fake news, hate speech, or app developers and data privacy.

So now we are going through every part of our relationship with people and making sure we're taking a broad enough view of our responsibility -- not just to build tools, but to make sure those tools are used for good.

This means continuing to invest heavily in safety, security and privacy.

Some of this will come in the form of new technology. We are restricting the data developers can access. We're building advanced AI tools that have already helped us detect and remove tens of thousands of fake accounts ahead of the elections in France, Germany, and Alabama last year.

We're investing more in people. We are doubling our team working on security and content review to more than 20,000 by the end of this year. This includes content reviewers with specific language skills to detect hate speech in places like Myanmar.

We're also working to protect political discourse by making ads more transparent. We recently announced that from now on, we will require everyone running political and issue ads, or running a large page, to be verified with a government ID. We're also starting to roll out ads transparency tools that bring our ads to an even higher standard of transparency than TV or print ads. You'll be able to see who's running a political ad, who they're targeting, how much they're paying, and what other messages they're sending to different people.

We're going to get this done in time for the 2018 US midterms as well as upcoming elections in Mexico, Brazil, India, Pakistan, and more.

We have a responsibility to keep our community safe and secure, and we're going to invest heavily to do that.

At the same time, we also have a responsibility to keep moving forward and keep building tools that bring people together in meaningful new ways. That's what makes Facebook so important to so many people, and that's our responsibility too.

I'm proud that more than 2 billion people use our services to stay connected with the people that matter to them most. In just the last several months, we've seen the #metoo movement and the March for Our Lives, organized, at least in part, on Facebook. We've seen people come together after Hurricane Harvey to raise more than \$20 million for relief. And we've seen more than 80 million small businesses use Facebook to grow and create jobs.

That's why, beyond the investments we're making to secure our platform, we're going to invest even more in building the experiences that bring people together on Facebook in the first place.

Over the next three years, we're going to keep building Facebook to not only be a service that people love to use, but also one that's good for people and good for society.

Last quarter we shared our well-being research into the good and bad uses of technology that showed that when you use the internet to interact and build relationships, that's correlated with greater long term well-being and greater health and happiness over time. But when you're just passively watching videos or news online, that's not as positive.

This quarter we've continued shifting from passive consumption to encouraging meaningful interactions. It's still early, but we're starting to see some signs that this is working. Some types of sharing are increasing, even as passive consumption of video is down. And at the same time, we're rolling out more interactive video features like Watch Party that lets you watch videos with your friends. This is something we can uniquely do, and the feedback on it so far is great.

Groups is also a major focus for us. This quarter we announced that 200 million people are now members of meaningful groups on Facebook. Now we just need to keep doubling that for the next few years to reach our goal of helping 1 billion people belong to meaningful groups. As membership in physical groups continues declining as it has for decades, we hope helping people connect on Facebook will help strengthen our society's social fabric.

Stories is also a big part of the future of video sharing, which is why we're all in on it across our family. Instagram was the first to really take off here. Facebook started slower but is now growing quickly too. And WhatsApp Status is by far the biggest of these products and continues to grow quickly.

There's also a clear trend towards sharing with smaller groups, which is why messaging is so important. Between WhatsApp and Messenger people now send almost 100 billion messages every day. They also do more than 3 billion minutes of video and voice calling every day -- making us by far the largest network for video calling as well.

Over the next five years, we're focused on building out the business ecosystems around our apps like Instagram, WhatsApp and Messenger.

This quarter, we released WhatsApp business, which lets small businesses create a presence and offers better tools for messaging. In just a few months, more than 3 million people are actively using WhatsApp Business. It's a hit and it's growing quickly.

One of the interesting opportunities and challenges over the coming years will be making sure that ads are as good in Stories as they are in feeds. If we don't do this well, then as more sharing shifts to Stories, that could hurt our business. But there's upside real upside here too if we do a good job. We're leading the way here with Instagram, and the results so far are promising -- both on product quality and business performance.

Over the next ten years, we're continuing to work on the long term technology that we need to break down barriers and bring the world closer together.

We continue to work on connectivity, and our Internet.org efforts have now helped almost 100 million people get access to the internet who may not have had it otherwise.

AI is the most important technological trend right now, and I'm optimistic that it can help us amplify the good that's happening on our services as well help us proactively remove harmful content. For example, one thing that I'm proud of is our AI tools that help us take down ISIS and Al Qaeda-related terror content, with 99% of that content being removed before any person flags it to us. We've also built AI tools that have flagged when people are posting thoughts about suicide, and these tools have helped us reach out to first responders to get over a thousand people the help they need quickly.

On the positive side, AI will help us understand the context of what people are sharing so we can help encourage more connection and conversations between people.

And finally, we have some big moments for virtual reality coming up, and I'm excited to get Oculus Go in people's hands soon.

Overall, 2018 is a year of important investments -- to keep people safe, and also to keep building the experiences people expect from us.

We are taking a broader view of our responsibility and investing to make sure our tools are used for good. But we also need to keep moving forward -- building new tools to help people connect, build community, and bring the world closer together.

Thanks to all of you for being part of this journey, and I'm looking forward to making more progress together.

And now, here's Sheryl to talk about our business.

**Sheryl Sandberg, COO**

Hi everyone.

Before going through our results, I want to take a minute to talk about ads and privacy.

At Facebook, we have always built privacy protections into our ads system. We use the information you provide and that we receive from websites to target ads for advertisers – but we don't tell them who you are. We don't sell your information to advertisers or anyone else.

We also believe that people should control their advertising experience. For every ad we show, there's an option to find out why you're seeing that ad – and to turn off ads from that advertiser entirely. And you can opt out of being targeted based on certain information, like the websites you visit or your relationship status.

Advertising and protecting people's information are not at odds. We do both. Targeted ads that respect people's privacy are better ads: they show people things that they're more likely to be interested in. We regularly hear from people who use Facebook that they prefer to see ads that are relevant to them and their lives.

Effective advertising is also critical to helping businesses grow. This is especially important for small businesses who wouldn't otherwise be able to afford to buy broad reach media. As Mark shared, we now have more than 80 million small businesses around the world using Facebook Pages, and many of them are building their businesses on Facebook. Small businesses are the backbone of local communities and create a majority of jobs around the world, and their growth creates millions of new

jobs. We surveyed small businesses in 18 countries, and more than half of SMBs on Facebook say they've been able to hire more people due to growth in demand since joining our platform.

Last month, I was in Houston for Facebook's Community Boost event. I met Patrice Farooq, who runs a small business called Cupcake Kitchen. After Hurricane Harvey damaged her business last year, she used Facebook to find new customers. Now more than half her business comes from Facebook and she's getting ready to open a second store.

We're proud of the ads model we've built. It ensures that people see more useful ads, allows millions of businesses to grow, and enables us to provide a global service that's free for all to use. The fastest way to bridge the digital divide – in the United States or around the world – is by offering services free to any consumer regardless of their circumstance. Advertising supported businesses like Facebook equalize access and improve opportunity.

At the same time, we know that people want control over how their information is used — and we want them to feel confident that the ads they're seeing are authentic. That's why we're building industry-leading transparency tools. This includes a way to see ads an advertiser is running, even if they aren't targeted to you. This new feature is live in Canada and will roll out in Ireland and the US soon.

In the coming months, GDPR will give us another opportunity to make sure people fully understand how their information is used by our services. It's an EU regulation, but as Mark said a few weeks ago, we're going to extend these controls to everyone who uses Facebook regardless of where in the world they live.

Our commitment to you is that we will continue to improve our ads model by strengthening privacy and choice while giving businesses of all sizes new and better tools to help them grow.

With that, I'd like to turn to our results.

It was a great quarter for our business.

Q1 ad revenue grew 50% year-over-year. Mobile ad revenue was \$10.7 billion, up 60% from last year, and contributed approximately 91% of total ad revenue. Revenue growth was broad-based across regions, marketer segments and verticals.

We continue to make progress on our three priorities: helping businesses leverage the power of mobile, developing new ad products and making our ads more relevant and effective.

First, leveraging the power of mobile.

Advertisers recognize the importance of reaching their audience on mobile. During the Super Bowl this year, over 90% of national TV advertisers were also advertising on Facebook. This shows that the largest

advertisers understand the value of broad-based campaigns with us. Take Tourism Australia. To get more Americans interested in visiting Australia, they ran ads on Facebook and Instagram in the week leading up to the game. On Super Bowl Sunday, they ran short video ads on Facebook before their big TV spot at halftime. This drove 22% incremental reach on top of TV and a 35-point lift in awareness. During the campaign 50% of leads on the Tourism Australia site came from Facebook.

Second, developing new ad products.

Instagram Stories is changing how people share and express themselves. Advertisers are also finding creative ways to use the format. This quarter we made Carousel ads available in Stories so advertisers can share up to three images or videos per ad instead of just one. People can swipe up on the ads to visit the advertiser's website.

We also announced a number of innovations to help retailers reach customers. We rolled out a more personalized shopping experience in News Feed. Now when people click on a Collection ad, they'll see a full-screen catalog organized according to their interests. We also introduced a new way to reach people before they've shown interest in making a specific purchase. If someone is generally interested in furniture, a business can now run ads focused on different categories of their products, such as couches or tables, to inspire them to shop.

Last, making our ads more relevant and effective.

Our investments in measurement are helping advertisers of all sizes understand their results and make good investment decisions. We've heard from many of our advertisers that they want 3rd party verification to prove that we're helping them achieve their marketing goals. We were recently accredited by the Media Ratings Council for News Feed served ad impressions on desktop and mobile. We're working with them on accreditation in other areas as well.

Going forward, we will continue to focus on these three priorities and ensure that people's privacy is protected on Facebook.

I want to close by thanking our teams around the world for the work they do each and every day and every quarter to make our company and our services better. I'm also grateful to our partners who work with us to grow their businesses.

Thanks, and now here's Dave.

**David Wehner, CFO**

Thanks Sheryl, and good afternoon everyone.

Our community and business both showed solid growth in the first quarter.

Let's start with the community metrics. Daily active users on Facebook reached 1.45 billion, up 13% compared to last year, led by user growth in India, Indonesia, and Vietnam. This number represents approximately 66% of our 2.20 billion monthly active users in Q1. MAUs were up 260M or 13% compared to last year.

Turning now to the financials. All comparisons are on a year-over-year basis unless otherwise noted.

Q1 total revenue was \$12.0 billion, up 49% or 42% on a constant currency basis. Foreign exchange tailwinds contributed \$536 million of revenue in Q1. Additionally, the adoption of ASC 606, the new revenue standard, resulted in approximately \$130 million of incremental revenue in Q1, due to a change from net to gross accounting for our Instant Articles product.

Q1 total ad revenue was \$11.8 billion, up 50% or 43% on a constant currency basis.

Mobile ad revenue was \$10.7 billion, up 60%.

In Q1, the average price per ad increased 39% and the number of ad impressions served increased 8%, driven primarily by feed ads on Facebook and Instagram.

Payments & other fees revenue was \$171 million, down 2%.

Turning to expenses.

Total expenses were \$6.5 billion, up 39%. In Q1 we added over 2,600 employees which was a record level of net new hires. We ended Q1 with over 27,700 full-time employees, up 48% compared to last year. We are focused on growing technical headcount as well as a wide-variety of other groups that support the business.

Operating income was \$5.4 billion, representing a 46% operating margin.

Our effective tax rate was 11%.

Net income was \$5.0 billion or \$1.69 per share.

Capital expenditures were \$2.8 billion, driven by investments in data centers, servers, network infrastructure, and office facilities.

In Q1, we generated \$5.0 billion in free cash flow and ended the quarter with approximately \$44 billion in cash and investments.

In Q1, we bought back approximately \$1.9 billion of our Class A common stock. Given our existing repurchase program is nearly fully executed, our board of directors has authorized the repurchase of up to an additional \$9 billion of stock.

Turning to our outlook.

The changes that Mark and Sheryl described will, we believe, benefit our community and our business and will serve to strengthen Facebook overall.

At the highest level, we believe that we can continue to build a great ads business while protecting people's privacy.

That said, with regards to GDPR and other initiatives around data usage, while it's early and difficult to know the business implications in advance, we anticipate a couple of impacts.

First, as you might expect, we believe that European MAU and DAU may be flat to slightly down sequentially in Q2 as a result of the GDPR roll out.

Second, while we do not anticipate these changes will significantly impact advertising revenue, there is certainly the potential for some impact, and we will be monitoring this closely. Importantly, GDPR affects the entire online advertising industry so the Facebook-specific impact is difficult to model in advance.

In terms of our overall 2018 revenue outlook, we continue to anticipate revenue growth rates will decelerate on a constant currency basis throughout the year.

On the expense side, we are tightening our initial expense guidance range. We now expect that full-year 2018 total expenses will grow 50-60% compared to our prior range of 45-60%. This narrowed range reflects the significant investments we're making in areas like safety & security, content acquisition, and our long-term innovation efforts.

Turning to capital expenditures. We expect that our full-year 2018 capital expenditures will be around \$15 billion, at the high end of our prior range of \$14-15 billion, driven by investments in data centers, servers, network infrastructure, and office facilities. We also expect continued growth in capital expenditures beyond 2018 to support global growth and ongoing product improvements.

Turning now to tax. At current stock prices, we expect that our Q2 and full-year 2018 tax rate will be in the mid-teens. As a reminder, fluctuations in our stock price will impact our tax rate.

In summary, our first quarter results demonstrated that growth in our business and global community remains strong. We have a lot of work ahead and are investing aggressively to enhance safety, security

and privacy while also focusing on our mission of giving people the power to build community and bring the world closer together.

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