

**FACEBOOK, INC.**  
**April 24, 2019**

Operator: This is Conference # 7883517

Operator: Good afternoon. My name is Jessa, and I will be your conference operator today. At this time, I would like to welcome everyone to Facebook's first quarter 2019 results follow-up Q&A call.

All lines have been placed on mute to prevent any background noise. To ask a question, please press star, then the number one on your telephone keypad. This call is being recorded. Thank you very much.

Ms. Deborah Crawford, Facebook's vice president of investor relations, you may begin.

Deborah Crawford: Thank you. Good afternoon, and welcome to the follow-up Q&A call. With me on today's call is Dave Wehner, CFO. Before we get started, I'd 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 certain 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 would like to turn the call back over to the operator for the first question.

Operator: We will now open the lines for a question-and-answer session. To ask a question, please press star, followed by the number one on your touch-tone 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 the line of Mark Mahaney from RBC Capital Markets. Please go ahead.

Mark Mahaney: Hey, great, thanks. Two questions, please. Dave, could you just -- any general comments on the state of the monetization of Facebook Messenger and of WhatsApp?

And then I had a really specific numbers question to run by you, which is -- and you commented on this kind of unsolicited during the Q&A. North American ad revenue growth barely budged, barely changed. You know, it was 30 percent growth year-over-year in the March quarter on a tougher comp. So it may be modestly decelerated on a tougher comp.

And so I guess the question is, and I know you talked about reasons why the revenue growth would decelerate going forwards, but just give us a little more color on that. Like, I see the rest of the world decelerating, but if you adjust for currency, probably not by that much. My guess is that Stories is most rolled out, in terms of the usage in North America, but that's just an assumption on our part. And so I'm almost -- it's almost surprising to me. Like, it looks to me like revenue growth is stabilizing, not decelerating, just looking at your largest market, your most penetrated market, and where I assume Stories is having the greatest kind of deflationary impact.

So just tell us why that isn't the right read for the business going forwards, why revenue growth really should decelerate.

Dave Wehner: So let me -- thanks, Mark. On the first comment, I would say we're very early on Facebook Messenger monetization, so we do have revenue there, but it's a very small contributor, and WhatsApp -- there's no revenue at WhatsApp related to ads at this point.

And Mark has outlined the priorities for messaging, and that's privacy and interoperability. And if anything, the focus that Mark and the product team have on those two areas has de-prioritized monetization as it relates to messaging. And so at least in the near term, that's -- I would say the monetization side is lower priority. And so I'd sort of give that.

On the revenue growth for -- for North America, we're seeing good growth there. Obviously, Instagram is a big contributor. We talked about Stories on Instagram. Also, Feed on Instagram has been strong, and we've benefited year over year on Feed ad load growth on Instagram. That's going to be -- we did ramp Feed on Instagram last year, so we've seen that contribute to growth. But at the level it is at currently, we don't have that lever as strong going forward. So that's like contributor to -- deceleration on growth in North America and across the world.

And then I would say pricing -- is obviously a big lever of growth in North America. And I'd say pricing is the area where we have been very successful with ad targeting, and the area where we correspondingly see a lot of risk going forward, and I outlined the areas of risk there being the regulatory landscape and the increase of things like opt-outs on third-party tracking and also the platform headwinds, particularly things that could impact both targeting and measurement. So that we believe will play an impact to decelerating revenue growth and impact our ability to kind of increasing -- get those same gains we've gotten on the pricing side.

And then finally, we'll be rolling out our own -- our own product decisions, and -- one of those is the tool related to clearing your history on Facebook. So I think all of those factors play into it as we look at the rest of 2019, and we think those are real factors that are going to drive decelerating growth in North America and the rest of the world.

Mark Mahaney: OK, thanks for the color.

Dave Wehner: Yep.

Operator: Your next question comes from the line of Rich Greenfield from BTIG.  
Please go ahead.

Rich Greenfield: Hi, thanks for taking the question. I guess two parts. First, just if I go back a few quarters, Dave, you all were making -- I think Mark kind of came out with we're going to roll out Stories everywhere and the shift to Instagram -- sorry, the shift from Instagram and Instagram Stories to Facebook Stories and kind of how you really aggressively pushed Facebook Stories would have a meaningful weighing on revenue.

And you kind of talked on the last call about Facebook Stories sort of happening slower than -- and the transition to Facebook Stories happening slower than you expected. And I feel like on today's call it really didn't come up all that much. Like, is -- where are we on Facebook Stories? Is it really -- are you sticking more to Feed and it's going to be more of an Instagram Stories play? I'm just wondering kind of how Facebook Stories kind of fits into the broader narrative today versus maybe six months ago.

And then I have a follow up.

Dave Wehner: Sure, Rich. Thanks for the question.

So engagement on Stories is particularly strong on Instagram, and so we've been really focused on Instagram Stories, because that's what's driving the Stories impression growth, it's what's driving the revenue in Stories, and Facebook is much earlier in terms of engagement and monetization. So while we do have -- we do have DAU interacting with Stories, it's not the same engagement level that we see on Instagram. So we're still seeing progress and growth there. But Facebook is much more Feed-weighted.

Rich Greenfield: Is that a risk, though, to growth over the next year? Or that risk is really diminished because it's just happening so slowly?

Dave Wehner: Well, I think it's...

Operator: You are approaching the maximum length for a recording. Finish your recording after the tone.

Dave Wehner: OK.

Rich Greenfield: No idea what that is.

Dave Wehner: I don't know what that is. But so -- sorry, that distracted me a little bit. But the...

Rich Greenfield: It's all right.

Dave Wehner: I think the net of it is, we do think that the growth opportunity on Facebook in the developed market is going to...

Operator: You have reached the maximum length for a recording. To send this message, press pound or hang up. To play it, three. To re-record it, four. To add to it, five. To discard it, six.

Dave Wehner: OK. So...

Rich Greenfield: It's not me; I don't know.

Operator: To send this message, press pound or hang up.

Dave Wehner: Yes. So I think there is some -- there is some -- there is some risk to driving impression growth, because...

Operator: If you would like to try (and send)...

Dave Wehner: ... in the developed markets, the impression growth opportunity we do believe is in Stories. So we do believe that to drive impression growth on Facebook -- developing the Stories product is important. So -- I think that's less far along than Instagram, and that's certainly a factor and why we're still focused on getting Stories to work on Facebook.

Sorry about all the interruptions there, Rich. Hopefully you got the answer through all of that. Rich? OK.

Operator: Your next question comes from the line of James Lee from Mizuho Securities. Please go ahead.

James Lee: Thanks for taking my question. Dave, I was hoping maybe you could be maybe a little bit more specific about the ad targeting headwinds in the second half. When you talk about opting out third-party tracking, are you talking about -- are you taking out re-targeting from your targeting options -- going forward? And when you talk about clearing out Facebook cookies, is it more at your end as a platform or is that the user's option?

And also you talked about eliminating certain targeting. Maybe can you be a little bit more specific what else? Is that a place where we can think about the implication? Because we heard agencies talk about this -- a new tool you're implementing called CBO, campaign budget optimizer. Is that part of the -- concern you're citing for the second half? Thanks.

Dave Wehner: So specifically what I'm talking about is as it relates to third-party opt-outs. It's online behavioral advertising and it does include things like re-targeting. It does impact re-targeting, where you have users who are opting out of targeting based on third-party app and website visits, and being able to use that signal in optimizing ads and we have seen the number of people who who are opting out of that steadily increase across the globe, but obviously it's particularly strong in Europe, where you've got the GDPR regulation.

And so as we anticipate GDPR-type regulation across the globe, that is a particularly important headwind to watch. So we have seen those opt-out rates steadily increase, and so that's one of the risks that we're calling, and that does impact targeting.

In terms of the tool related to our own history, that is something that will also impact our ability to target, because it will effectively eliminate some signal from the system, and that will also have an impact. And so that's factored into our guidance on deceleration throughout the year, and especially in the second half.

In terms of the specific types of targeting that we're eliminating, the sort of things that I would cite there is -- restrictions that we've introduced on the use of targeting criteria like age, gender and zip code, for things like housing, credit, and employment ads in the U.S. So those have been rolled out. And it's those types of additional targeting restrictions that are also having an impact.

This is a cumulative impact of a number of different things. And so we're trying to capture all of those in the guidance that we're giving.

In terms of campaign budget optimizer, I think that's -- I believe that's placement optimization, which is where we help optimize where your ads are being placed, whether it's on Facebook, Facebook Feed, Instagram Feed, Instagram Stories. That's not a specific tool that will be impacted by the targeting signals law. So that's not as much what I would point to as being impacted.

James Lee: And just want to clarify one thing, Dave. When you talk about clearing Facebook cookies, that's at user's option to do so, right? It's not a mandatory thing that you do on the platform level to eliminate all cookies for the targeting.

Dave Wehner: Correct. Correct. This is just providing -- this is providing user control.

James Lee: OK, great, thanks.

Operator: Your next question comes from the line of Jason Helfstein from Oppenheimer. Please go ahead.

Jason Helfstein: Hey, thanks. I don't want to rehash, because obviously you are getting a lot of this. Delete my history - you've talked about kind of somewhat publicly -- there's been blog posts, all that. Connect this, though, for us to CCPA. Obviously, you're thinking about potential privacy regulation as you're putting some of these policies into effect.

Do you think kind of -- the forget my history and the things you have in the pipe cover CCPA, if that ends up becoming the national standard in the U.S.?

What are we -- potentially, if Congress doesn't pass national privacy standards, then kind of there's more you have to do to be compliant with CCPA? And just any thoughts there, thanks.

Dave Wehner: Jason, I'm not the expert on CCPA, so apologies. I won't be able to give you a complete answer on this. But -- obviously we're trying to make sure that the things that we're doing on the privacy and user control front are consistent with where we see regulation heading more broadly.

So I think that's the goal of what we're doing. We're trying to -- get ahead of where we see the regulatory landscape evolving to in terms of what we're doing with our own products.

Jason Helfstein: OK, thanks.

Operator: Your next question comes from the line of Dan Salmon from BMO Capital Markets. Please go ahead.

Dan Salmon: Hey, good evening, everyone. Dave, the platform changes that you referred to that you expect to impact targeting in the back half, I'll just go and ask, I mean, is this -- expected changes on the Chrome browser? There's been questions around that and reports about that lately. Is that what you're referring to, or are there sort of other platform changes that you're anticipating, as well?

And then, second, thanks to you or Sheryl -- I can't remember who sort of continued to give the color on the differences in pricing between Feed and Stories, I'm interested if you could take us one layer deeper and how that discount sits on a difference between Feed and Stories on Instagram versus Facebook and WhatsApp. Our assumption is the gap's a little closer on Stories, where -- or, excuse me, on Instagram, where Stories have been around a little bit longer, but would love to hear otherwise.

Dave Wehner: OK, Dan. I can -- so on the platform rifts, it's really -- there's, I think, a variety of different platforms we operate on, including, of course, iOS, Android, Chrome, Safari. You know, I think you've seen Apple announce certain directions on things like targeting and measurement, so we continue to

you know, we'll see that from -- iOS and Apple -- as well -- you cited some potential changes on Chrome, so I think it's -- I think it's not one platform. I do think there is overall -- the platforms on which we operate are going to be making decisions based on privacy, as well, and that could have an impact on our business. And -- we do think the second half is the timeframe on that.

On the differences between Feed and Stories, I mean, really for all practical purposes, when we're talking about the Stories impact today on impression growth and we're talking about Stories pricing, we're really talking exclusively about Instagram Stories, which is the big contributor in terms of impression growth and also on the revenue side, the one that's making a difference today.

So -- and there, there is a meaningful difference between Instagram Feed pricing and Instagram Stories pricing, and -- we are -- we are seeing -- we're seeing more supply growth on Instagram Stories, and we're trying to bring more demand to that platform. But I know the general -- the reality of a supply-and-demand marketplace is when your supply is growing quickly, prices tend to have downward pressure.

And so as we've seen supply grow quickly -- pricing is much lower on Instagram Stories. And I think over time, we believe -- like we have on Instagram Feed and we have on Facebook Feed, we'll bring more demand to that format. We'll do that by getting more advertisers to shift budgets from just being on Feed to being on Feed and Stories. Part of the way we'll do that is by bringing more formats for direct response Stories. But there are challenges with making direct response work as well on Stories as it does in Feed. You know, those are things that we'll be working on.

So -- we do think there's opportunities to bring more demand and sort of close the gap on pricing. But -- I'd also say overly on top of that, we've had a lot of supply growth, and so that's having an opposite driver on pricing on Stories versus Feed.

So -- I think it's a good growth opportunity. We love to see supply growth, and we think that's good for the opportunities for the advertising business. But -- pricing is still much lower on Stories, and we'd expect that to persist.

Dan Salmon: OK, thank you.

Operator: Your next question comes from the line of Ron Josey from JMP Securities. Please go ahead.

Ron Josey: Great, thanks for taking the call. Just maybe a quick follow-up and then another question on just Stories again. Dave, you talked about just bringing more demand to Stories just now and the impact with supply and pricing, whatever.

But I was actually pretty impressed, surprised to hear about the 3 million advertisers on Stories versus the 2 million last quarter, and that's out of, I think, around 7-plus million total. So can you just talk about what's driving the more demand there? I know it's sort of opposite of what you just said, but 3 million is a pretty big number. So any insight there would be helpful.

And then we haven't really talked or heard much about -- well, I guess I'll ask this question instead. On Messenger -- I think I heard monetization would be somewhat de-emphasized as the focus shifts more to privacy and one-to-one communications, though we are getting some monetization today in Messenger. As I look at the F8 schedule, though, it seems like Messenger is front-and-center from a B2B perspective.

So any insight on how maybe the near-term strategy for Messenger would be playing out? That'd be helpful. Thank you.

Dave Wehner: Sure. I mean, I think -- there's a few different factors driving more advertisers to Stories. You know, the -- one overriding factor is a simple one, which is it's starting to be a scaled platform. There's good pricing. Smart advertisers are saying, hey, I can get -- I should try this out.

In addition, we're doing placement optimization, so we're proactively bringing more advertisers to Stories through the ads manager tool. So I think it's both - - pull and push when it comes to the advertiser growth on Stories. Consistent with -- so I think that's the story on Stories.

Ron Josey: Yes.

Dave Wehner: On the F8 -- sorry, did you want to add something else there?

Ron Josey: No, no, go ahead. Yes, I was agreeing with you, sorry.

Dave Wehner: So on Messenger, clearly we do think that messaging is an important way for people to communicate not only with other people, but also with businesses. And so we're focused on building a robust ecosystem, which will be the foundation for a longer-run opportunity for marketing on the platform, but it's not the near-term focus.

So I think when you look at the priorities, yes, messaging is focused on not only people communicating with each other, but also being able to reach businesses.

You know, some of the things that we've done is really focused on things like click-to-Messenger ads versus just general ads in Messenger, because we want to drive more adoption of click to messaging ads as a means for businesses to connect with consumers via messaging, rather than just focus on -- just I would say generic Feed-type ads in Messenger inbox and the like. So we're really kind of emphasizing that long-term ecosystem building, rather than emphasizing near-term revenue optimization.

And in addition, Mark has really kind of made a big focus on privacy and interoperability for both Messenger and WhatsApp. And that means that those engineering teams are focused on that effort. And I think that comes at - - you always are making prioritization decisions, and that's come at some expense on the -- focus on just -- near-term monetization opportunities.

So I think long term, we're focused on building that fundamental business to consumer ecosystem. But short term, less focused on the revenue opportunities on Messenger and WhatsApp.

Ron Josey: That's helpful. Thank you very much.

Operator: Your next question comes from the line of Alan Gould from Loop Capital. Please go ahead.

Alan Gould: Hi, thank you. I've got two questions. First, can you address the share buybacks? It was a noticeable decrease right now, even though the stock was lower. Is that as much an optic that you don't want to be buying stock right now with all the other issues coming on?

And secondly, how long do you keep data on your servers? And is there any intention to hold data for a shorter period of time, both for a privacy issue as well as perhaps a CapEx issue?

Dave Wehner: Sure. Our buybacks will obviously vary from quarter to quarter, and we've talked about -- two components of the buyback. One is just offsetting dilution as well as making opportunistic repurchases from time to time. And this was a lower paced quarter, but we'll -- we would anticipate the buyback will vary quarter to quarter.

In terms of data on our servers, I don't have any real update to provide there. It's certainly not having -- there's no linkage that I'm aware of to -- our CapEx outlook, so I wouldn't cite that as factoring into anything on the CapEx side.

Alan Gould: All right, I guess I was thinking also of Mark's comment that -- referring to the more recent data, of course, is much more valuable for targeting.

Dave Wehner: Yes, I'd just let that stand. I don't think that's related to -- that's not related to CapEx.

Alan Gould: OK, thank you.

Operator: Your next question comes from the line of Brent Thill from Jefferies. Please go ahead.

Brent Thill: Thanks. Dave, just on the expense guide, you brought the midpoint from 45 to low 40s pretty quickly at the beginning of the year. Can you just maybe go through the rationale? And was there anything that was cut out this year maybe you were intending to spend on? Because it seemed like a fairly quick cut earlier in the year versus historically you've seen throughout the year.

Dave Wehner: Well, we did see in Q1 -- marketing expenditures came down, and that was related to coming off a very strong seasonal quarter in Q4 related to the (portal and go) spend. So that was a factor going into it. So part of it is just the -- the performance on Q1 playing into it. We're still expecting to -- invest aggressively for the remainder of the year. And one of the factors is -- you've seen in the quarter headcount growth rate come down, so that is factoring into also the expense growth outlook.

But -- I would reiterate that there's really no change in our long-term desire to continue to invest aggressively in the important areas of safety and security in innovation, as well as in the core products and infrastructure. So -- I would say this is more of a pacing and timing thing rather than where we're ultimately end up as an expense profile for the business.

Brent Thill: Great, thanks for the color.

Operator: Your next question comes from the line of Ben Schachter from Macquarie. Please go ahead.

Ben Schachter: I was wondering if I can get your thoughts on three separate areas. One, any update on the dating product? Two, there was a lot of discussion about the past about video content acquisition strategy. You know, will you make your own shows? Will you license shows? We haven't heard much about that lately, so if you could talk about that and how that relates to spend.

And then finally, all this discussion about ad targeting, can you talk about the advertisers that will actually be impacted by this? Is it going to be broad-based and everyone gets impacted? Or would it be more folks that would use the agencies and some of the third-party tools out there? Or would it be more sort of the SMBs? Thanks.

Dave Wehner: Sure. Let me start with -- the ad targeting. I think ad targeting is obviously going to have an impact on -- on a wide variety of different categories. We've seen strong growth in direct response and often those advertisers are relying heavily on signals. Some of those signals are gathered off of Facebook as it relates to third-party websites, and apps tracking.

So those are -- those same areas that we've seen -- strong growth and being able to optimize effectively, we do think will be impacted by ad targeting headwinds in the remainder of the year. So -- it's going to impact everyone, but I'd say especially on the direct response side, where we've seen lots of good success.

On the dating front -- we're testing the product in some markets. I think early indications are it's going well, but -- nothing really else to share as of right now.

On the video content and acquisition strategy, that continues to be an area of investment to support growing Watch. I would say we -- as Mark mentioned, we're seeing some progress on Watch, but it's still early days. We are focusing on -- original shows that drive conversations and two-way interactions. And -- the majority of the content on Watch is content that's coming organically, but we're also clearly investing and paying for content there, so -- to get that flywheel going.

Deborah Crawford: Operator...

Ben Schachter: Does that mean -- you'd provide any update on sort of the scale of what you're willing to invest for that video content -- how much you're spending per show or how many shows you're trying to do, anything around that?

Dave Wehner: We haven't broken out anything specifically there. I mean, we are -- it is one of the investment areas for the company. But we haven't broken out a specific number on that.

Deborah Crawford: Great. Operator, we're going to take one last question.

Operator: Your last question comes from the line of Rocco Strauss from Arete Research. Please go ahead.

Rocco Strauss: Yes, hey, Dave. Couple questions from me, please. Firstly, could you speak to the total number of advertisers across platforms and with additional monetization layers around commerce -- Watch, Stories, et cetera, are you still

trying to get more advertisers or simply capturing more spend per existing advertiser?

And then I think Mark touched on it earlier a bit. Should we expect platforms starting to interoperate much more than they do today? And could Stories be - - for example, could Stories be posted across platforms from a single point of action, means it doesn't matter where I'm consuming Stories any longer? And was that also, of course, Stories ads?

And lastly, do you anticipate any material changes in business practices to come as part of the FTC settlement? Or will that be rather -- say, like a one-off fee with no strings attached? Thanks.

Dave Wehner: On the FTC matter, really can't comment beyond what we've taken as a charge, given that there's ongoing settlement discussions with the FTC. So it would be premature to comment beyond the charge.

On platform interoperability, as it relates to Stories, today you can already post across Instagram and Facebook, and we've been using that as a means to feed more Stories content into Facebook and get more engagement on the Stories product on Facebook. So we'll continue to do that.

And also, cross posting on Messenger, I don't think any plans to have that happen with WhatsApp Status, which is kind of its own ecosystem, but across Facebook, Messenger and Instagram, there is an ability to share that content.

In terms of the total number of advertisers, we've got 7 million active advertisers across the family. That's our last public number. We talked about the 3 million active advertisers on Stories across the family today. And I'd say our focus is to continue to grow the total number of advisers across the platform, bring more demand over to Stories, and then -- obviously try and capture more share with advertisers and more spend for advertisers.

So -- it's all-of-the-above in terms of what we're trying to accomplish.

Deborah Crawford: All right. Thank you, everybody, for joining us today. We appreciate your time. And we look forward to speaking with you again.

Dave Wehner: Thank you, all.

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

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