Facebook, Inc. (FB)
First Quarter 2020 Follow Up Call
April 29th, 2020

Operator: Good afternoon. My name is Christina, and I will be your conference operator today. At this time, I would like to welcome everyone to Facebook's first quarter 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 will be 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 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 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.

Finally, we hope that everyone listening today is staying safe and healthy. The vast majority of us at Facebook are working productively from home, and everyone on the call this afternoon has dialed in remotely. And now I'd 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, 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 the line of Mark Shmulik from Bernstein. Your line is open. Please go ahead.

Mark Shmulik: Yes, hi. Thanks for taking the questions. A couple, if I may. The first is, you know, just around audience network, any incremental details you could share? Did the mobile audience network kind of shut off at the start of April, like I think was originally planned? And any incremental update you can share there around how the in-app audience network has kind of been performing in these times.

And then the second question is around the innovation. I heard it mentioned a few times around product innovation and investing through, you know, on the main earnings call.

Any color you can share there just around, you know, how that team has been performing and any interesting insights for products coming out of that team and how you feel about that? Thank you.

Dave Wehner: Sure, why don't I start with the innovation question first? There, we did see R&D grow 40 percent quarter -- year over year. You know, that's our core product and also our innovation efforts. Innovation includes the work that we're putting behind AR/VR, so that's a big effort.

Obviously, the products there that have been successful is the Quest product, which brought some of the capabilities that Rift had into a more mobile environment. So we're certainly pleased with Quest.

That's been kind of -- would I call it a breakthrough product? I think in many ways it has been, but it's still obviously early for VR. But certainly a great product and one I personally enjoy.

In addition, on the innovation front, I think Portal has seen a lot of success this quarter in the sense that people who have them I think are realizing how great they are for having virtual presence in this shelter-at-home environment. I know I've used it with my parents almost every other day, so it's been awesome on that front. And that's part of the broader innovation team, as well.

Audience Network, you know, we still -- we did stop serving Audience Network ads into mobile sites earlier this year, but we do continue to serve ads into mobile apps. This tends to be fairly gaming-heavy -- from a vertical perspective, and that has been one source of strength for us.

But I want to qualify, Audience Network is a very, very small part of our business. We recognize it on a net basis, so it's a pretty -- you know, very small part of our revenue.

Operator: Your next question comes from Lloyd Walmsley from Deutsche Bank. Your line is open. Please go ahead.

Lloyd Walmsley: Thanks, Dave. Two, if I can. First, you mentioned product optimization prior to the pandemic in your remarks. Can you kind of elaborate on that? Is that -- you know, are you testing at all, maybe higher ad loads, given the level of engagement?

And then second one on cost, depreciation and CapEx seem to be coming in quite a bit below our expectations. I think the last quarter or two you've talked about just more efficient decommissioning of servers, but anything else you can share with what might be helping on the depreciation side and how we should be thinking about that over the course of this year? Thanks.

Dave Wehner: Sure, on the product optimization front, you know, we're always looking at all sorts of different vectors as it relates to the product, and ad load is one of those components, and that did have a factor in the quarter on the Facebook side. So that was one of the elements that helped drive the impression growth from the Facebook perspective.

And then overall we've seen, you know, growth across the family of apps with COVID, as well, just engagement growth. You saw that I'm sure in the DAU and MAU numbers on Facebook and the broader family numbers, and there's kind of associated engagement and impression growth with that.

On the cost side, a lot of our CapEx in recent years has been on the data center side, and that has a long lifetime from a depreciation point of view. So I don't think anything specific to call out on the quarter.

Obviously, our data center spend from a CapEx perspective is going to be more muted this year, given the ability to execute on those data center builds, but our server side purchasing, you know, when we're buying the servers, that really hasn't -- we haven't seen that forecast come down, but it's really on the data center, building the structures into which we're putting the racks and servers, that's where we're seeing the biggest pullback in capital spend.

And that's really about execution in this environment where you've got shelter-in-place orders in effect in a lot of these regions where we're building data centers.

Operator: Your next question comes from Michael Nathanson from MoffettNathanson. Your line is open.

Michael Nathanson: Thanks. Thank you. Hey, Dave, let me -- can I do three? I'll do one at a time. I want to follow up on a question Colin asked you about, you know, the headwinds you talked about at the end of Q4.

You warned of deceleration to the low to mid-single-digits. I wonder pre-COVID, was it trending the way you expected, you know, in lower to mid-single-digit deceleration because of those factors?

Dave Wehner: Yeah, sorry, did you want to do three questions, I thought? I was going to wait for the three.

Michael Nathanson: Yeah, I was going to do three and do one at a time, not to lose my train of thought.

Dave Wehner: OK, all right, we can try that. Just make sure you don't get cut off. I don't know how it works sometimes.

Michael Nathanson: OK.

Dave Wehner: So in terms of targeting headwinds, I think – it’s fair to say we were seeing good growth in the business, you know, in January and February.

And the decel that we saw was just above that -- you know, just above the range that we guided to, so I think we had a pretty kind of healthy business performance going into the last month. And it was really kind of concentrated in the last three weeks of March.

So, you know, I don't -- I think, you know, otherwise it was a pretty strong quarter all around. And then, you know, COVID I think -- we're not immune to the crisis that's hitting everyone.

Michael Nathanson: Right, OK, cool. So I'm not cut off. Second one is on the cost expense growth guidance. You gave us a sense of the bad debt expense. And I know you're also making a lot of payments to small businesses.

Are you contemplating in your guidance a continuation of bad debt and maybe some more funding of small businesses, you know, within that guidance range that you put out for us?

Dave Wehner: Well, I mean, yes, we're factoring in all of the plans that we expect at this point. You know, we haven't yet taken expenses related to a lot of commitments we made. So those expenses are going to fall later in the year.

And, yes, we're factoring in our assumptions around bad debt. And just to be clear, what I gave was the bad debt increase, not the total debt, just because it was a driver of G&A expense.

Michael Nathanson: Right, got it.

Dave Wehner: Yep.

Michael Nathanson: OK, that's cool. Last question…

Dave Wehner: And it was $193 million, just for those keeping track at home.

Michael Nathanson: OK, cool. And the last one was, the minus 16 percent change in pricing, when you go under the hood of the drivers in Q1 versus what happened in second quarter so far, what do you see as the biggest factors maybe? Is pricing increasing? Is it Q2? Is the density of the auction getting better? So any help on pricing dynamics from Q1 into Q2?

Dave Wehner: I mean, you know, it was a demand side shock. So we're basically seeing demand drop for our different -- for our inventory. So I don't think there's any -- I'd say the pricing impact was pretty broadly felt across our surfaces. And that's kind of what one would expect from a demand side shock, which is clearly what we had with COVID.

And we're also getting a supply side -- to some extent a supply side shock at the same time, which is increased engagement. So, you know, and that's pretty broad-based, as well.

You know, if demand recovers, then we would expect prices to rise. And in the meantime, it's a great time for advertisers to find ROI in the system, and that's what we're seeing from certain segments that are very price-sensitive, like your typical gaming company doing app install ads.

Operator: Your next question comes from John Blackledge from Cowen. Your line is open. Please go ahead.

John Blackledge: Thank you, two questions. First, on Op-ex, Dave, are the expected declines in travel, events, and marketing kind of the bulk of the change in the OpEx guide? And would you expect kind of more permanent declines in travel and event costs at Facebook?

And, secondly, on users, you know, broad-based user beat, for sure, was that led by new users? Or kind of like a mix of new and/or lapsed users? And, you know, how should we think about the user growth going through the rest of the year, as we try to kind of model it out? Thank you.

Dave Wehner: Yeah, no, it's a great question, John. And we are seeing people who are new coming to our products as well as people who are re-engaging. And we're certainly pleased to see those older cohorts come back.

So we think this is an opportunity for us to kind of re-engage those users and get them back into being more frequent users of Facebook, and also, for new users, as well. We do think that as shelter-in-place restrictions lift, and we return to a more normal cadence, that we're going to lose some of this engagement.

On the OpEx side, there's travel events and marketing that is -- that is a driver. We've also seen a decline a bit in the SBC expense, with the stock price drop, and then, as well, I think we're seeing some savings on depreciation because of lower CapEx. So you've got a number of different factors.

In terms of what might be sustained savings, I do think that we are all learning how to do more remote work and engage more digitally. And I'd be surprised if some of those behaviors don't persist and we see more digital-first events or digital-only events replace physical presence events, you know, certainly in the near term, certainly in the next year.

We made a decision to not have any live large events of more than 50 people through June of 2021. So we just proactively decided to do that. That's primarily a decision driven by safety.

But there's also a fair amount of cost tied up in those events, and we thought given that there's a high risk of those events being canceled, it was better to make a decision now rather than wait and make a bunch of commitments, which would tie up expense that wouldn't be high ROI, given the likelihood of those events being canceled.

Operator: Your next question comes from Brent Thill from Jefferies. Your line is open. Please go ahead.

Brent Thill: Thanks. Any comments just around the Instagram Checkout beta? Any color would be helpful.

Dave Wehner: Yeah, I mean, look, it's still early on Instagram Checkout. I think the important theme here is commerce is really important to us. It's our largest vertical, e-commerce.

We know it's important for our digital native customers, but also customers who are not digital native who really want to build their online presence. We want to be a company that helps them do that and do that effectively and make it more seamless and easier to acquire customers and generate transactions in a digital environment.

So, you know, Instagram Shopping and Instagram Checkout are part of that, but we're trying to do that across the board across our apps. And so, commerce is clearly a big area of focus for us this year and for the next several years.

Brent Thill: And just a quick follow-up. I think you'd mentioned earlier on CNBC that you saw kind of an even pullback among enterprise and SMB. I'm curious, as things started to stabilize a little, did you see any one come back a little bit faster? Or was it kind of an even comeback, as well?

Dave Wehner: Yeah, I don't know if I've looked at that data in detail, Brent, so can't comment. I will say, I looked, you know, more at the vertical data, and there -- you know, when we saw the pullback, it was primarily in the verticals that we've talked about. I mean, it was pretty broad-based, I should say, with specific verticals really getting hit, things like travel and auto.

And then you've got other verticals that kind of really did better, you know, gaming, e-commerce, technology clients. And so, it was definitely a very different response if you have a online conversion event that you could optimize again, then you saw prices drop, you were able to take advantage of it. If you were driving offline behavior -- and a lot of the more brand advertisers are doing things that are reach and frequency based, those you see -- you saw pullback.

You know, so, again, advertising tied to outcomes, advertising tied to online outcomes is where we saw strength. And then brand and sort of offline activity, not surprisingly, that's where we saw weakness.

So it was kind of -- you know, you could have probably written the story in advance. It was fairly what you would sort of expect to happen, and given the dynamic nature of the auction, I think it -- it's a testament to how we can -- it sort of dynamically backfills with other advertisers as certain advertisers pull out.

Operator: Your next question is from Michael Levine from Pivotal Research Group. Your line is open. Please go ahead.

Michael Levine: Just another question, Dave, about e-commerce, which I know you got a lot of questions on the main call and a few follow-ups here. I mean, my sense with a lot of the native DTC brands – we've seen those explode pretty much across -- you know, across the Facebook properties, as well as some of your peers.

I mean, the part I'm just trying to figure out is, did you guys view this as sustainable? Or is this more -- to your comment, you've had this demand shock, and all of a sudden customer acquisition has gotten a lot cheaper?

I'm just trying to figure out if -- is this one of the verticals once you get back to normal and prices start to normalize, you know, do you look at it as being somewhat at risk?

Dave Wehner: Yeah, I mean, I think -- yeah, I think there's going to be some of that, where you're getting companies that are taking advantage of good pricing. I'd say we're probably seeing a -- the strongest amongst those is really probably the gaming companies, which are taking advantage and doing app installs.

E-commerce probably a little bit less so, so I think you'll probably see -- as you see prices go up, you might see that same thing, which is e-commerce would be -- you'll probably see a bigger pullback on the gaming side would be my guess. But that's just kind of reading where we've seen strength with low pricing.

We have certainly seen a lot of strength from e-commerce over the years, but that's -- it's a pretty long-term macro trend. I don't think the fundamentals there will change, even if kind of the near-term pricing dynamics might cause, you know, shorter-term pullbacks if we got a lot more bidding into the auction from other verticals.

Operator: Your next question comes from Laura Martin from Needham. Your line is open. Please go ahead.

Laura Martin: Hi there. Thanks. Maybe a couple questions around Watch and Watch parties. Could you talk about what your engagement was on Watch in the first quarter and whether you've seen the same benefit of engagement you've seen from some of your properties?

And then Mark talked a lot about video calling, live video, and video rooms, and I'm sort of interested philosophically that over time will you see that kind of video sort of integrated into larger Watch because it happens to be video?

Or do you sort of separate lean back, more passive viewing, or social viewing from these utility video products you're building, like video calling and live video?

Dave Wehner: Sure, on Watch, you know, I'd say similar to other surfaces, we have seen, Watch engagement perform strongly during the shelter-in-place period. Like other places, I think that's -- we're going to see that -- when people are sheltering in place, they're looking for content, they're looking for entertainment. So I think we're going to see that be strong. And then, conversely, when shelter-in-place relaxes, I think that we might see some loss of engagement there.

When it comes to video calling and video rooms, that's really kind of a separate experience. That's more about what Mark is calling video presence and really about connecting with people.

So it's part of -- when we talked about our three priorities with COVID, Mark talked about making sure that people are connected with the people that they care about, and then that's kind of the first one. The second one is making sure that we're helping with the public health effort. And then the third is helping with the recovery, and especially for SMBs.

On the first one, where we're sort of connecting people, that's where the products that we're rolling out on the video presence side really matter. And so there's Messenger Rooms.

You know, that creates a way for people to engage others in larger sort of video presence activities. There's, you know, expanding our WhatsApp video calling from four to eight people, which is something that there's clearly a need for right now.

And then there's Facebook Live, which is -- you know, we've seen a lot of engagement on, over 800 million people engaging with Facebook Lives, so that's -- and people are doing, even doing commerce over that, with things like video yoga classes and, you know, exercise classes and things like that.

So there's a lot of interesting things going on with video, video presence, and -- you know, we're excited about the product suite that we're doing there and we're really accelerating our product efforts in that space, given the COVID situation.

Laura Martin: Thanks very much.

Dave Wehner: Yep.

Operator: Your next question comes from Jason Bazinet from Citi. Your line is open. Please go ahead.

Jason Bazinet: I guess before you guys were public, back in the '08, '09 crisis, the last recession caused this big acceleration away from traditional media towards internet advertising.

And I'm just looking at the market's reaction to your results and Alphabet’s. And I just wondered, do you have a hypothesis in terms of whether this recession will again accelerate the shift to internet or internet advertising?

Or do you think it's more a function of this mix shift you're alluding to, in term of people sort of backfilling at these low CPMS at the bottom of the funnel or digital native companies sort of continuing to advertise? Any hypothesis would be helpful.

Dave Wehner: Yeah, I mean, I think there's a few things I would call out. One is that we're -- the internet advertising market, digital advertising, much bigger part of the market today.

So our hypothesis is that -- it's a pretty simple one, which, you know, we articulated is, GDP is going down. It went down in the first quarter. It's going to go down in the second quarter globally.

You know, advertising industry tends to go down when there's big GDP corrections. So the advertising industry pretty much undoubtedly is going to go down. It's going to contract.

And already digital is a big part of it, so that's a pretty big downward pressure on overall opportunity. And I think that's different than in 2008-2009, which was a much smaller part of the market.

There's, I think, a lot of different elements to kind of how the ad market could evolve. I mean, I think there's a lot of television dollars tied up in live sports, so it's going to be more dependent on, do live sports come back online, probably than it's going to depend on digital.

We are seeing that -- where we're getting the demand right now is from people who are driving sort of more online conversions, direct response, so it's not like we're seeing a shift of reach and frequency dollars, which I think of as being television dollars, to us.

I think what we're seeing is, you know, people who are driving the kind of direct response actions taking advantage of low prices. So that's what we're seeing now. It's hard to say how things will evolve as the impact of the crisis sets in. But at least a couple factors I'd consider.

Jason Bazinet: Thank you.

Operator: Your next question is from Stephen Ju from Credit Suisse. Your line is open. Please go ahead.

Stephen Ju: All right, thank you. So, Dave, I think I asked this a couple quarters ago in terms of the ability to scale ad impressions and the impact on the auctions. So I think this quarter -- and I guess more so into the second quarter -- the ceiling on the ad impressions increase came up because of the higher engagement, which I guess is helping to offset the pricing compression.

But, you know, as you roll forward from here, what are your latest thoughts in terms of, I guess, a greater reliance on the first party signals only and maybe the lower effective targeting and maybe the pricing that you guys called out on the public call?

So you have to be thinking from a product standpoint about various ways to hold on to this increased level of engagement and users. So, you know, can you point to any particular items or efforts or products that can, you know, keep your users well engaged on the platform? Thanks.

Dave Wehner: Sure. I mean, I think -- we do think that there's opportunities to sustain engagement. But there is undoubtedly going to be somewhat of a reversal when we get to the point at which people are no longer sheltering at home.

It's just a natural replacement of activity. So I think that's going to be sort of inevitable as we kind of unwind some of the impact that we've seen from sheltering in place.

In terms of what we can do, obviously we're trying to engage people with some of the products they're engaging with now, video.

We're trying to develop better -- you know, make sure we're showing them good content in Newsfeed, you know, all of the kind of the basics in the blocking and tackling to keep people engaged and to get those people who have re-engaged to stay.

But there is going to be some natural unwind, I think, as we come off of the shelter-in-place situation that we're in today. As impression growth comes down, we're going to see pricing come up.

That's just kind of a natural impact of the auction environment. So we do still face -- you know, you mentioned first party signals. We still face I think headwinds on the third party signal front, given the regulatory landscape and sort of the platform provider landscape, that is going to make that a headwind to the business, that sort of remains being a headwind.

It was an impact this quarter, but, COVID, sort of the overall demand shock from COVID sort of overwhelms that, but it's certainly something that we're going to watch.

And that's going to impact the whole industry, not just Facebook. So I think we're relatively well positioned there with first party signals, but obviously I think it's going to impact advertiser ROI and potentially advertiser demand.

Stephen Ju: Thank you.

Operator: Your next question comes from Jason Helfstein from Oppenheimer. Your line is open. Please go ahead.

Jason Helfstein: Thank you. I guess everyone's going to be trying to dissect how you've had a flat April and other companies are worse. Obviously, we know there's less travel exposure.

And just I want to clarify, it sounds like on the SMB exposure maybe compared to Google, is it -- you know, you have more small businesses who have an online business model versus perhaps they have more of their advertisers are physical?

And then combining that with on the DTC side, you have advertisers who can kind of use you for top of the funnel, which then goes into performance, which is harder to do for search. So any other color would be appreciated.

And then just second, quickly on the expense side, how dependent is the revenue guidance on revenue, meaning the high end versus the low end? Yeah, that's -- I'll leave it at that. Thanks.

Dave Wehner: Yeah, I mean, I think if you're trying to make comparisons to Google, I think the better way to think about it is there -- at least on the search side, you're auctioning specific search terms.

And for Facebook, it's more about reaching people, and you're not locked into the specific vertical in which the search is taking place, so you've got more of a potential to substitute out other advertisers.

So I think it's a little bit of a different -- you know, it's a bit of a different business, and so that's -- you know, that's where I think there's probably some differences in the behavior in the quarter more than I think it's probably a question of SMBs or physical advertisers. But I'm not sure.

I'd say our business, -- focusing on our business, we've got a lot of diversity of advertisers who can come in and bid for an impression for a user at any given time. And if one vertical falls out, another vertical can bid into that same spot, and we can use that impression.

Our expense guidance -- I mean, generally I'd say our expenses relative to short-term revenue are quite fixed. So it's people and it's depreciation related to servers and infrastructure.

And a lot of that is really kind of set in place with our hiring plans and the like. There is some discretionary OpEx and places where there's some control, and we've talked about some of those areas as it relates to this quarter.

But I'd say those are going to largely be, you know -- I'd say our expense guidance is pretty solid. I expect we're going to fall into the range that we've given regardless of the revenue path that we take.

Jason Helfstein: Thank you.

Operator: Our next question comes from Ron Josey from JMP Securities. Your line is open. Please go ahead.

Ron Josey: Great, thanks for taking the questions. Hi, Dave. So just two. I wanted to ask a little bit more about the ad verticals that were harder hit, autos and travel. I don't think that's a secret. We know what's going on over there.

But in what you were talking about, Dave, was signs of stability in the first three weeks of April. Are you seeing stabilization in those verticals, as well, is the question number one?

And then, you know, we've talked about e-commerce quite a bit. We all know that. But what do you think needs to happen to sort of improve actual transactions on the platform? Is it the checkout? I think you've talked about that before.

And is that what maybe we should be seeing some new product enhancements going forward? Or what do you think is still needed for actual transactions on the platform? Thanks, Dave.

Dave Wehner: Yeah. Autos and travel -- I mean, there are some areas where you might see stability, but at a very low level relative to where they were pre-COVID. So I think stability is kind of -- a fairly -- it's a term that doesn't mean that much when you're talking about something being down so much.

In terms of e-commerce and what we need, I think it's better checkout. It's making it easier for merchants to onboard and bring their full catalogs, make for a seamless browsing experience to consumer.

I mean, there's lots that we can do across the board to make this a great experience for merchants and consumers, and that's that we're working to do on the product front. And then it also requires work on the merchant end, as well, and up the interface with those merchants. So there's a business development angle, as well as a product angle.

Ron Josey: That's helpful. And then just real quick on Catalogs, I think Mark mentioned adding that in the WhatsApp in India. Is this something that's rolled out globally? And appreciate the comments on autos and travel. Totally hear you there. Thanks.

Dave Wehner: Yeah, I mean -- I don't have a whole lot to add to what Mark said on the Catalogs front.

Ron Josey: OK, thank you.

Dave Wehner: Yeah, sorry, Ron, yeah.

Operator: Your next question comes from Mark Zgutowicz from Rosenblatt Securities. Your line is open. Please go ahead.

Mark Zgutowicz: Thank you. Dave, just a couple specific ones, and then maybe a high level. On the specifics, just hoping you could maybe just qualify the user demos that you're seeing, you mentioned are coming back or new to the platform, and sort of how that looks on News Feed, in terms of News Feed engagement relative to IG?

And then, exposure to local mom and pops, I assume it's somewhere in maybe a quarter of your SMB mix, but any color you could provide there would be helpful, and how that's trending relative to that sort of early signs in April of flat.

And then lastly, at a high level, just any directives or discussions that you're having or seeing at the CMO level that's suggesting an acceleration of digital spend at, you know, perhaps the expense of linear? That would be helpful. Thanks.

Dave Wehner: Yeah, I think it's -- we sort of talked a little bit about kind of the broader -- on the last question the broader dynamics in the ad industry. I'm personally not having any discussions at the CMO level, so I'd defer to our ad sales team.

I think when people have digital outcomes and digital business objectives that they can drive against, that we're seeing an opportunity for them to spend more, and at least right now I think that's where we're seeing -- we're going to those existing clients who can turn on campaigns quickly, can take advantage of the good pricing in Feed and in Stories, and be able to kind of drive those business results. That's what we're seeing today, gaming e-commerce. We talked about it.

Toward sort of broader shifts at the CMO level, these traditionally have been things that sort of happen on a more annualized basis, and I just don't think we're yet at the point where we understand what the impact could be on that front. I think we're more looking at those dynamic budgets that are responding quickly to price right now.

In terms of the demos that we're seeing and how those look, you know, don't have much more to add, other than we are seeing re-engagement from older cohorts, and that's promising.

Again, I'll qualify this and keep qualifying this with -- we don't know what's going to happen when shelter-in-place goes back and we're kind of in more kind of a normal frame. But we certainly have an opportunity to re-engage those users and we're certainly trying to do that. We've got, we think, a lot to offer and want to get them re-engaged.

On the question on, you know, local mom and pops, I just -- I don't know -- we don't have that as a vertical or a specific breakout of what SMB is for us. I'll say we have, you know, 8 million advertisers. Obviously the vast majority of them are SMB. We've talked in the past about concentration, and top advertisers were very diversified from that perspective.

So we've got a ton of kind of medium-sized businesses that are driving, you know, both offline activity and online activity. And I think that's where we're -- with those businesses, driving online activity, that's where we're seeing strength. You're kind of -- your true mom and pop, that's certainly part of our mix, but -- but, you know, it's not -- it's not the driver.

Mark Zgutowicz: OK, thanks, Dave. That's helpful.

Dave Wehner: Yeah, thanks, Mark.

Operator: Your next question comes from the line of Aaron Kessler from Raymond James. Your line is open. Please go ahead.

Aaron Kessler: Great, maybe just a couple questions. First, on the call you talked about the March decline. Can you just reference, is that a year-over-year decline? Or is that a decline from January, February levels?

And just any insights into the flat April versus kind of what you were seeing maybe in the second half of March, which is probably the worst I assume?

Dave Wehner: Yeah, so on the March -- on the decline, I mean, I think, you know, no doubt expenses were ramping throughout the quarter. So from a practical perspective, March saw a decline in revenue and expenses ramped, so certainly had worse margins than January or February. So the math there kind of speaks to that.

But what we were speaking about on the call was really kind of comparing 2020 margins to 2019, given that we're continuing to ramp expense, but we expect it to be a tough road on the revenue front, you know, given the macro economy, the likely impact to the advertising industry, and obviously we're flat in April on a year-over-year basis on revenue, flat in the first three weeks of April.

So that "flat" comment is saying the first three weeks of April ad revenue as compared to the first three weeks of ad revenue in 2019.

Aaron Kessler: Got it. And so the second half of March, was that kind of flattish, as well? Or was that actually down year over year?

Dave Wehner: Well, we didn't say specifically, but what we did say is that we saw that there was a steep decline in ad revenue beginning and around the time WHO declared COVID a global pandemic. That was around March 11th. And we've seen some signs of stability after -- you know, after that, and that's where we gave the April reference. But we didn't specifically give the growth rate in March.

Operator: Your next question comes from Rich Greenfield from LightShed. Your line is open. Please go ahead.

Rich Greenfield: Hi, thanks for taking the questions, Dave and Deborah. I'll be quick. One, just going back to the -- sort of the last question, as well as Nathanson's question earlier, if you run the math that you are -- look, let's just say at best flat in the last three weeks, or even if you were down, because it was even worse than that, it looks like, you know, adjusting for currency, it looks like you actually had revenue growth that was in the

20s, maybe 27 percent, 28 percent, 29 percent, which would have been an acceleration from the organic -- you know, organic currency, apples-to-apples last quarter.

And just was wondering if you looked to kind of that accelerating relative to decelerating the way you expected, what's the greatest delta in that acceleration on a sequential basis year over year?

And then just -- Sheryl I think on the last call -- it might have been the call before, but I think it was the last quarter – you made some comments about kind of click to Messenger ads, and sort of the growing success you'd had on that.

And I think a lot of that started over in Europe. And just curious kind of where that is in its life cycle and how that click to Messenger ad product is actually driving CPMs would be useful. Thanks.

Dave Wehner: Yeah, so I'm not sure I understand the math that would get us to accelerating on a constant currency basis in the high 20s. We were flat year over year in April. You know, there's probably been a little bit of currency weakness, but it's not going to drive you into the high 20s on -- and certainly not accelerating…

Rich Greenfield: No, no, so, Dave, what I was saying is, if you took the 17 percent that you reported in Q1 and you currency neutralized it, you're at around 19 percent to 20 percent.

And if you just adjust for the fact that three weeks were flat to down, the organic Q1, if it hadn't been for COVID, looks like it would have been up high 20s. And I was just wondering why Q1 would have been up stronger than Q4? Like, what led to the acceleration in growth versus a deceleration the way you've been expecting?

Dave Wehner: Yeah, well, we're not giving the -- kind of what Q1 would have been absent COVID. But I would say that while the business was performing well in January and February, it wasn't performing -- it wasn't performing something that was way out of line with expectations. So I think it was a demand drop in March that led to the 17 percent.

And then on the click to Messenger ads, we are -- you know, we're seeing success in those -- from both -- you know, and just to remind people, these are ads in

Facebook and IG feed or Stories where you click to message a business on Messenger or WhatsApp.

And there we've seen, you know, good demand for people who want to get in touch with a business, and so this has been a great way for us to connect businesses to consumers. It drives a real engaged business experience.

We think specifically that helped with growth in Asia, where that's a behavior that is more -- I'd say it happens more, where you kind of drive business transactions off of messaging threads. And so, it's certainly been additive to growth in that region. And…

Deborah Crawford: OK, Operator, we're…

Dave Wehner: Sorry, go ahead, Deb.

Deborah Crawford: Oh, sorry. We have time for one last question, Operator, thank you.

Operator: Your last question comes from Alan Gould from Loop Capital. Your line is open. Please go ahead.

Alan Gould: Yeah, thanks for taking the question. You've mentioned gaming a number of times. Have you ever given us how -- what percentage of your revenue comes out of gaming? And can you also give us a sense of what you're seeing from China outbound ads?

Dave Wehner: Yeah, so on gaming we don't give a percent. It's one of our top five verticals. And we have a very, you know, diversified business from a vertical perspective. E-commerce is bigger than gaming, as -- you know, in most quarters it has been. But we aren't specifically breaking that out.

So China, you know, as a reminder, we don't have users in China, so our business there is purely China-based advertisers reaching people out of the China market. And there I think what we've seen is -- we saw a pullback in revenue in China early in the quarter. And we've seen some -- early in Q1, we saw some recovery at the end of Q1.

But I think where you're getting -- you know, part of that is just the vertical story we've already talked about. China tends to index very high with businesses that are driving online outcomes, so your gaming and e-commerce verticals are the types of advertisers we get from China.

So some of what we're seeing there is those clients winning in the auction. And then, obviously, at the beginning of the quarter, there are just -- there were just a lot of people out, so they weren't placing ads.

Alan Gould: OK, thanks, Dave.

Deborah Crawford: Great. Thank you for joining us. We appreciate your time. Stay safe. And we look forward to speaking with you again.

Dave Wehner: All right, great. Thanks, everybody.

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