Facebook, Inc. (FB)
First Quarter 2020 Results Conference Call
April 29th, 2020

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 2020 Earnings Conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during that time, 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, VP, Investor Relations

Thank you. Good afternoon and welcome to Facebook's first quarter 2020 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.

Finally, we hope that everyone listening today is staying safe. 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 over to Mark.

Mark Zuckerberg, CEO

Thanks everyone for joining us today. Before we get started, I just want to say that I know this is a very hard time for a lot of people. I know many of you are calling in from New York, where this has been particularly tough, although almost everyone has been affected by what's going on in some way. So I want to start by acknowledging that, and taking a moment to thank everyone working on the frontlines to help all of us get through this.

There is a lot of uncertainty now about what the world will look like over the coming months, and Sheryl and Dave are going to give some more context on what that means for our business. The impact on our business has been significant, and I remain very concerned that this health emergency and therefore the economic fallout will last longer than people are currently anticipating. And while there are massive societal costs from the current shelter-in-place restrictions, I worry that re-opening certain places too quickly before infection rates have been reduced to very minimal levels will almost guarantee future outbreaks and worse longer term health and economic outcomes.

With that said, I want to use this time today to discuss how we're responding to Covid, what we're seeing across our services, and some reflections on how we plan to run the company going forward.

Our response has been focused on three areas: helping people stay connected while we're apart, assisting the public health response, and working on the economic recovery, especially for small businesses.

I'll start with how we're assisting the public health response.

The first step here is connecting people with authoritative health information. We built a Covid-19 Information Center with authoritative information from health officials and governments, and messages encouraging people to stay home that are coming from public figures they trust. We put this Covid-19 Information Center at the top of everyone's Facebook app, and so far we've directed more than 2 billion people to it.

Equally important is also limiting the spread of misinformation. We don't allow content that puts people at imminent risk of physical harm, so when people share hoaxes like that inhaling water cures Covid -- which is both false and will be physically harmful if anyone does that -- we take that down. For other types of misinformation, we partner with independent fact-checkers, who have marked more than 4,000 pieces of content related to Covid as false, which has resulted in more than 40 million warning labels being seen across our services. And we know these work because 95% of the time when someone sees a warning label, they don't click through to view that content.

Beyond helping people broadly access high quality information, we're also focused on helping governments and health authorities get better data in a privacy protective way to inform key policy decisions that they need to make as well. We partnered with Carnegie Mellon to run a widespread symptom survey on Facebook, and we're using their findings to produce daily county-by-county maps of the symptoms people are experiencing across the country, and soon globally as well. Since people experiencing symptoms is a precursor to them going to the hospital or getting more seriously ill, this tool can help local governments and health officials plan how to allocate scarce health resources like PPE and ventilators, as well as determine when it is safe to start re-opening an area -- or when an area will need to have tighter shelter orders if symptoms re-emerge.

Just this morning, we announced that we're working to connect these symptom surveys to ground truth infection rate data from large serology and PCR studies that are funded separately by the Chan Zuckerberg Initiative to more accurately determine the true infection and exposure levels globally on a local region basis as well.

This is work we're uniquely positioned to do because Facebook is a global community and people use their authentic identities on our service so that means we can make sure the data is meaningful. But we're very focused on doing this work in ways we know will be helpful to the health response and that protects people's privacy and human rights, which is why we've primarily focused on how aggregate data can help.

Outside of Facebook, Priscilla and my work at the Chan Zuckerberg Initiative alongside leading experts in science and health continues to inform my views on the best ways for us to assist in this health response and also what we should expect going forward with this disease.

Next I want to discuss how we're helping people stay connected with the people they care about, even while we can't be together during this period.

This is our core mission, and I'm proud of how we've supported people around the world during this time. We know that people especially rely on social apps in times of crisis and in times when we can't be together in person. Right now we're experiencing both of those all around the world at the same time, so we're seeing major increases in use of our services.

For the first time ever, there are now more than 3 billion people actively using Facebook, Instagram, WhatsApp or Messenger each month. That includes 2.6 billion people using Facebook alone, and more than 2.3 billion people using at least one of our services every day. In many of the places hardest hit by the virus, messaging volume has increased more than 50%, and voice and video calling have more than doubled across Messenger and WhatsApp. In Italy, for example, we've seen up to 70% more time spent across our apps, Instagram and Facebook Live views doubled in one week, and we've also seen time in group video calling increase by more than 1,000% over March.

Making sure our services are stable and reliable during this period is a top priority. We're monitoring usage closely and adding capacity in our data centers where we can. The investments we've made in the shared infrastructure that powers all of our different services over the years have helped us manage this, but it has been a challenge while all our teams have been working remotely.

I'm sharing these numbers to give you a sense of the surge in people relying on our services that we're seeing. Obviously I wish the circumstances were different, and I don't expect this exact spike in usage will sustain over a longer period of time. But in some areas, I think we're seeing an acceleration in pre-existing long-term trends -- like the dramatic increase in online private social communication -- that is likely to continue. If nothing else, this usage shows that for a lot people around the world, these services are part of the social infrastructure that brings us together.

Even before Covid-19, our product strategy was already focused on building out private social platforms and on enabling online commerce, so it is well-aligned with what people need now.

Last week, we announced a number of new product improvements around video presence, which has emerged as an especially critical part of the private social platform during this time. Our view is that video presence includes three categories -- video calling, video rooms, and live video -- and we plan to lead and offer the best services for social uses in each of those different categories.

Video calling is when you actually ring a person's phone or computer. It's by far the most used type of video chat. Between WhatsApp and Messenger, there are more than 700 million daily actives participating in calls. We're doubling the size of WhatsApp video calls from 4 to 8. This is important because WhatsApp is the most popular end-to-end encrypted calling service, so if you care about privacy and encryption and you want to be able to reach anyone, you're probably using WhatsApp. Now you're going to be able to get your whole family or a larger group together on calls.

For video rooms, we announced a completely new product called Messenger Rooms. The idea is you can create a room for any activity or event you want, send a link to your friends or have them discover your room on Facebook, and they can drop by and hang out for a bit. This is different from any other video presence experience because it is serendipitous. You don't have to plan out an event and schedule it in advance if you don't want -- it can be much more spontaneous and fun. I've really enjoyed getting to use this as we've been building Messenger Rooms internally and I'm looking forward to getting it in more people's hands around the world soon.

Live video is also particularly important right now. People used to primarily livestream physical events, but since almost no one is planning physical events right now, live-streaming has become the primary venue for many events -- whether that's the pope's weekly mass on Facebook Live or DJs hosting dance parties on Instagram. Every day more than 800 million daily actives are engaging with livestreams across workout classes, concerts, and more. We've pivoted the Facebook Events team to help people create online events, including enabling people and small businesses to charge people that join their events in order to support businesses that relied on in-person services before.

The last area of our response I want to discuss is how we're helping with the economic recovery, especially for small businesses.

Sheryl will talk about this more, but with so many businesses forced to close their physical storefronts, more are looking to build their digital presences and those who already invested in their digital presences are increasingly viewing them as their primary storefronts. We're working on a number of ways to deepen this experience -- helping people buy items and services directly within our apps -- and we'll have a lot more to share soon. Overall though, our business depends on the success of small businesses. This is a moment where we feel that we are well-positioned to be champions for small businesses' interests and supporters of important infrastructure they're going to need in order to move online.

One aspect of online commerce I want to mention is the partnership we just announced with Jio Platforms in India. The largest Facebook and WhatsApp communities in the world are in India, and we think there's an especially important opportunity to serve small businesses and enable commerce there over the long term. By bringing together JioMart, which is Jio's small business initiative to connect millions of shops across India, with WhatsApp, we think that we're going to be able to create a much better shopping experience. There's a lot more we can do here and I'm looking forward to making progress with the team at Jio.

Now, beyond our immediate plans to help respond to the pandemic, I want to share some reflections on how we're planning to run the company during this period.

I've always believed that in times of economic downturn the right thing to do is keep investing in building the future. I believe this for a few reasons. First, when the world changes quickly, people have new needs and that means there are more new things to build. Second, since many big companies will pull back on investments, there are a lot of things that wouldn't otherwise get built that we can help deliver. And third, I believe there is a sense of responsibility and duty to invest in the economic recovery and to provide stability for your community and stakeholders if you have the ability to do so.

We're in a fortunate position to be able to do this. Along with our strong financial position and the important social value our services provide, we're planning to hire at least 10,000 more people in product and engineering roles this year so we can continue building and making progress. That said, with advertisers spending less and our business performance below previous expectations, we do plan to moderate some areas of our expense growth, especially in business functions. We accept that our profit margins will decrease this year as we continue investing, and Dave will share more on our financial outlook in a few minutes. But this economic pullback has certainly reinforced for me the importance of maintaining high margins. Our financial position has allowed us to continue investing in building products and making investments like our partnership with Jio even when the underlying economic conditions are challenging.

As always, I am grateful to everyone on this journey with us, and that's especially true during this period. As our services play an especially important role right now -- in helping people stay connected, in assisting the public health response, and working on the economic recovery -- I really want to thank all of our employees who are working hard to deliver these services, and everyone who has believed in us and supported our company over the years to help us get to the point where can deliver these services for people around the world. So thank you, and with that, here is Sheryl to talk more about our business.

Sheryl Sandberg, COO

Thanks Mark, and hi everyone.

As Mark said, this is an extraordinarily challenging time – it's a public health emergency, a global economic crisis and a time of great anxiety and personal tragedy for so many. My heart goes out to everyone on this call who has lost someone they love – and to everyone for the ways so many are suffering.

Mark talked about how our company has responded during this emergency to keep people safe and informed, how we see our responsibilities and how we are thinking about the future. I am going to talk more about the impact we have seen on our business and what we are doing to help other businesses survive and recover in this changing landscape.

Our total ad revenue for Q1 was $17.4 billion, which is a 17% year-over-year increase. After a strong start to the quarter, we saw a significant impact on our business as a consequence of the pandemic from the second week of March onwards. This impact has not been felt evenly. We've seen strong growth in gaming and relative stability in technology and ecommerce, which is one of our largest sectors. There are a few contributing factors here – first, as people stay at home these sectors are seeing more use of their products and services. Second, advertisers in these sectors tend to optimize for measurable objectives and we are generating sales at lower prices due to the overall reduction in ad demand. On the other hand, we've seen significant declines in travel and auto, as these industries have been hit particularly hard. These trends are continuing in the first few weeks of Q2, and Dave will share more on this shortly.

Companies of all types are adapting to a world where people aren't walking into their stores or seeing their brand on billboards. With more people spending time on our products and services than ever before, we are focused on continuing to deliver free and paid tools to help businesses reach the right people at the right time, and on finding new ways to support those struggling to keep the lights on and pay their employees.

People are looking for businesses on Facebook and Instagram more than usual during this crisis, so our free products are particularly important to the many brick and mortar businesses pivoting quickly online.
Even in the United States before the crisis, one in three companies didn't have a website because they can be expensive and difficult to set up even in the best of times. A Facebook Page or Instagram Business Profile is free and in a matter of minutes establishes a digital storefront.

Many are finding creative ways to engage their customers using our free products – from gyms offering workouts on Facebook Live to stores and restaurants using WhatsApp and Messenger to reach customers with delivery options. In Thailand, when Penguin Eat Shabu closed the doors of its nine restaurants, they started selling to-go boxes. They promoted this with Facebook posts and customers could order through Messenger, and they got 350 sales in one minute. A second offer led to 2,500 hot pot sales. After initially putting their employees on unpaid leave, these sales increased their revenue and helped restore employees to full pay.

Marketers of all sizes have more limited budgets, so they need to make every dollar work as hard as possible. That means measuring the value of their advertising is more important than ever, which is something our personalized ads provide. For years we have made major investments in systems and tools that enable businesses to easily understand their return on investment. In the current environment, these investments are paying off.

We are also launching new products to help businesses adapt to changing circumstances. Our teams moved quickly to make gift cards available on both Facebook and Instagram – giving customers the option to support businesses by paying upfront for products and services they can use later. We also made it possible for people to create fundraisers for local businesses with a few simple clicks. Fundraisers have been available to support nonprofits and people since 2015; but given the overwhelming interest in helping small businesses weather the storm, we made these tools available for businesses as well – something we never expected to do.

We also launched Temporary Service Changes to make it easier for businesses to share critical information like inventory updates, shipment details or new ways to buy. For example, if a restaurant needs to shift to a delivery model, they can now add food delivery links to their Facebook Page or Instagram Business Profile. Creating these products quickly in the current environment wasn't easy, and I am grateful to our product and engineering teams who are executing so well working from home.

The Business Resource Hub we launched in early March is a one-stop shop where businesses of all sizes can find support and virtual training that can help them migrate online. People can take courses on everything from how to connect with customers via Messaging and Facebook Live, to how to increase online sales.

We are fortunate to be in a strong financial position. We can continue to pay all our employees and contractors during this difficult time, which is why we believe we have a real responsibility to help others – especially small businesses around the world. In mid-March we announced a $100 million grant program to help 30,000 small businesses across the more than 30 countries we call home. Applications opened this month, and we are focused on getting cash into their hands as soon as possible. Economic crises hit vulnerable communities the hardest, especially women and women of color – and the families who depend on them. That's why half of the grants available in the US are earmarked for women, minority and veteran-owned businesses.

We have also worked closely with the US Government's Small Business Administration to spread the word to small businesses about how to apply for relief loans – reaching 30 million accounts across Facebook and Instagram with this information.

Businesses aren't the only ones facing hardship. Newsrooms are too. At a time when critical information is needed to keep communities safe, news organizations are seeing steep declines in ad revenue. In late March we announced a $100 million dollar investment to support the news industry – with $25 million in grant funding for local news organizations and $75 million in marketing spend to get money to publishers.

We have a responsibility to help during this uncertain time – by connecting billions of people when they are separated physically; getting vital health information to people on a dramatic scale; and helping small businesses survive.

I want to close by saying how grateful I am to our partners and teams around the world. During this unprecedented time we are trying to stay closer than ever to businesses large and small as they adapt to these significant challenges. I also want to thank our teams for ensuring our services keep running, and working so hard to launch new products so we can continue making a real difference in people's lives. This is such a difficult period for everyone, and we are grateful for the important work that is being accomplished by so many.

Now, here's Dave.

Dave Wehner, CFO

Thanks Sheryl, and good afternoon everyone.

Echoing Mark and Sheryl's comments, my thoughts are with everyone facing challenges during this difficult and unprecedented time.

Before turning to results, I wanted to comment briefly on Facebook's operating posture during the crisis. We took early action to ensure that our employees were safe and moved to a global work-from-home stance on March 6th, in the week prior to the WHO declaring COVID-19 a global pandemic. We are currently operating with over 95% of our full-time employees working from home with safety being the number one priority for those essential workers who need to come into our data centers and other facilities. We have been able to both support our existing employees and onboard new employees throughout this period. While we are by no means operating at 100% of capacity across every dimension of our operations, we have continued to ship new product releases, maintain service availability, review content and stay connected with our business customers. Given the circumstances, we have been pleased at the dedication and professionalism with which the Facebook team is tackling the challenges presented by this crisis.

Now turning to the results.

The COVID-19 pandemic is having a broad impact on our community metrics, revenue, expenses and business operations.

Our community metrics reflect increased engagement as people around the world have sheltered in place. It's gratifying that people are using our family of apps to stay informed and to connect with people and organizations that they care about. In March, we estimate that on average over 2.3 billion people used at least one of our services on a daily basis, and that approximately 3 billion people were active on a monthly basis.

We have seen increased usage across all of our services, particularly in markets that have been most impacted by the virus, including a surge in video and voice calling on Messenger and WhatsApp.

People around the world have increasingly turned to Facebook as well. Daily active users reached 1.73 billion, up 11% compared to last year. DAUs represented approximately 67% of the 2.60 billion monthly active users in March. MAUs grew 228 million or 10% compared to last year.

We expect that we will lose some of this increased engagement when shelter-in-place restrictions are relaxed and life returns to a more normal cadence, which we all look forward to.

Turning now to the financials.

Q1 total revenue was $17.7 billion, up 18% or 19% on a constant currency basis. Had foreign exchange rates remained constant with Q1 of last year, total revenue would have been $275 million higher. Q1 ad revenue was $17.4 billion, up 17% or 19% on a constant currency basis.

Again, the COVID-19 pandemic had a meaningful impact on our revenue. Revenue was strong from the beginning of the quarter through the first week of March, when we began to see a steep slowdown in our ads business - particularly in countries that implemented shelter-in-place measures to reduce the spread of the virus.

As Sheryl mentioned, there was a great deal of variability by vertical. During the last three weeks of March, Travel & Auto were our weakest verticals and we saw relative strength in gaming, technology, and ecommerce. These trends have continued into Q2.

We have seen relatively comparable pullbacks amongst large and small advertisers.

COVID-19 had an impact across the globe in Q1. On a regional basis, ad revenue growth was strongest in Asia-Pacific at 21% followed by US & Canada, Europe, and Rest of World at 16% each.

Turning now to our price and volume metrics. In Q1, the total number of ad impressions served across our services increased 39% and the average price per ad decreased 16%. The growth of impressions was primarily driven by Facebook Mobile News Feed, due to product optimizations we made prior to the pandemic as well as from the increased engagement that I talked about earlier. The decline in average price per ad was largely attributable to the reduction in advertiser demand during the last three weeks of March.

Other revenue was $297 million, up 80%, driven primarily by sales of Oculus products. As a reminder, we launched Quest in May 2019.

Turning now to expenses.

Q1 total expenses were $11.8 billion, up 1% on a reported basis. Excluding the $3 billion expense we recorded in Q1 related to our settlement with the FTC – Q1 of last year, that is – total expenses were up 35% year-over-year.

Cost of revenue increased 23%, driven primarily by depreciation related to our infrastructure spend.

R&D grew 40% and was driven primarily by investments in core product as well as our innovation efforts, particularly in AR/VR.

Marketing and Sales grew 38% and was driven by consumer and growth marketing.

Finally, excluding the FTC expense from Q1 of 2019, G&A grew 49%, driven partially by an increase in estimated credit losses related to COVID-19.

We had over 3,300 net new hires in Q1, primarily in technical functions, and ended the quarter with over 48,000 full-time employees, up 28% compared to last year. As I mentioned earlier, we continue to recruit and onboard new employees successfully while in a work-from-home environment.

Operating income was $5.9 billion, representing a 33% operating margin. Our tax rate was 16%.

Net income was $4.9 billion, or $1.71 per share.

Capital expenditures were $3.7 billion, driven by investments in data centers, servers, office buildings, and network infrastructure.

We had $7.3 billion of free cash flow and in the quarter, and we repurchased $1.2 billion of our Class A common stock.

We ended the quarter with $60.3 billion of cash and investments.

As I mentioned last quarter, though we booked the FTC expense in 2019, we did not pay the $5 billion settlement amount until after the first quarter of 2020 closed.

In addition, this past week, as Mark mentioned, we signed an agreement to invest approximately $5.7 billion into Jio Platforms in India. Our strong balance sheet proved to be an important asset this quarter, enabling us to commit to a long-term growth priority in India even in the midst of a troubled global economy.

Turning now to the outlook.

With the COVID-19 crisis, like all companies, we are facing a period of unprecedented uncertainty in our business outlook, certainly in the nearly eight years I have been with Facebook. We expect our business performance will be impacted by issues beyond our control, including the duration and efficacy of shelter-in-place orders, the effectiveness of economic stimuli around the world, and the fluctuations of currencies relative to the US dollar. On the latter point alone, since the WHO declared COVID-19 a pandemic, we have seen the US dollar appreciate 5% relative to the foreign currencies we do business in.

Given the increasing uncertainty in our business outlook, we are not providing specific revenue guidance for the second quarter or full-year 2020. Rather, I would like to provide a snapshot on revenue performance in the second quarter thus far. There is a tremendous amount of macro uncertainty so it is difficult to extrapolate performance based on a small sample of data.

After an initial steep decrease in ad revenue in March, we have seen signs of stability reflected in the first three weeks of April. Ad revenue has been approximately flat compared to the same period a year ago, down from the 17% year-over-year growth in the first quarter of 2020. The April trends reflect weakness across all of our user geographies as most of our major countries have had some sort of shelter-in-place guidelines in effect.

We are understandably cautious given that most economists are forecasting a global GDP contraction in Q2, which, if history were a guide, would suggest the potential for an even more severe advertising industry contraction.

In terms of expenses, we are continuing to monitor the COVID-19 situation and its impact on our business and operations and will adjust our plans accordingly. We expect to realize operational expense savings in certain areas such as travel, events, and marketing as well as from slower headcount growth in our business functions. However, we plan to continue to invest in product development and to recruit technical talent. In addition, we have committed over $300 million to date in investments to help our broader community during the crisis, which will have an impact on our financial performance this year. As a result, we expect total expenses in 2020 to be between $52-56 billion, down from the prior range of $54-59 billion. While this reflects a moderate reduction in the planned growth rate of total expenses, our overall expense growth in the face of expected revenue weakness will have a negative impact on 2020 operating margins.

Turning now to capital expenditures. Our significant investments in infrastructure over the past four years have served us well during this period of high user engagement. We plan to continue to grow our capex investments to enhance and expand our global infrastructure footprint over the long term. In 2020, we expect capital expenditures to be approximately $14-$16 billion, down from the prior range of $17-19 billion. This reduction reflects a significant decrease in our construction efforts related to shelter-in-place orders. Given the strong engagement growth and related demands on our infrastructure, this year’s capex reduction should be viewed as a deferral into 2021 rather than savings.

Turning now to tax. We expect our full-year 2020 tax rate will be in the high-teens, although we may see fluctuations in our quarterly rate depending on our financial results.

Our thoughts are with those in our community who are facing health challenges during this crisis and with those healthcare workers on the front lines. We are also mindful of the challenges many businesses are facing in this crisis, including the 140 million small businesses who use our platform. Our focus is first and foremost on helping our broad community navigate these challenges.

With that, Mike, let’s open the call for questions.

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 Brian Nowak from Morgan Stanley.

Brian Nowak: Thanks for taking my questions. I hope everyone is safe. I have two. Just the first one for Sheryl or Dave, I appreciate all the color on the different ad verticals between gaming, e-commerce, travel and autos, et cetera.

I guess I'd be curious to hear about sort of what happened in the decline in the ad business you saw in March compared to the stability in April, sort of what changed in those verticals?

And then understanding you're not giving guidance, but talk to us about some of the key verticals that would be needed to sort of bring the business back to growth as we go throughout the year.

And then the second question for Mark, you talked a little bit about SMBs. I'd be curious to hear about some of the key investment areas and initiatives you really think you need to execute on to make the SMB offering more comprehensive in '21 and beyond.

David Wehner: Okay, Brian. Did you want to take that, Sheryl?

Sheryl Sandberg: Yes, why don't you go first and I'll do second. You take the first, I'll take the second.

David Wehner: Yes. Sure. Sorry, we're doing our coordination. So Brian, yes, the trends that we saw in the end of Q1, we saw a pullback -- pretty broad-based pullback, especially concentrated in some of the areas that we talked about, things like travel and auto, but really kind of broad based, large and small advertisers.

We saw relative strength even then in a few categories like gaming, where you have always-on campaigns that were able to pick up some supply because the lower pricing kind of cleared at the levels that those advertisers were trying to acquire users at. So that is one of the benefits of the auction.

And then e-commerce, we've seen, was not as strong as gaming, but we've seen that show signs of stability as well and all of those trends sort of continued into Q2. So I don't think there's a lot of vertical shifts, but I think we've seen e-commerce sort of do reasonably well.

What we're seeing is really, I think, pretty straightforward. We're seeing people who are driving towards online conversion events do well because they're able to -- they're able to kind of bid in the auction and get those users and get those results that they're looking for. And people who are looking for offline or more top of funnel brand, there we've seen more pullback in spend.

Sheryl Sandberg: To your second question on SMBs, there's really two parts to this. One is what are we doing now to help SMBs weather the storm and come back to business and be able to pay their employees. And the second is the ongoing ad work we do. On the first, I think we've been really focused.

We came out early with our $100 million grants program, and we're rolling it out very aggressively around the world, trying to get money to people very quickly. And we're building specialized products we never would have thought of before.

Fundraisers were something that we did for nonprofits, for people, not small businesses. So in this very difficult time for SMBs, we're really focused on doing everything we can to help them survive and even thrive as they help transition online.

SMBs are also a major part of our business going forward. And on there, it's really the execution we do quarter-after-quarter to make our ads perform. We offer very personalized ads that can be directly targeted at small groups.

We do that in a very privacy protective way. And those ads are often most important for small businesses who can't afford to buy broad-based media.

And so all of the work we do to continue to allow targeting, all of the work we do to make the ads more personalized, all of the work we do to make free tools available, which is important for all the online businesses who use our free tools - there are 140 million of them as well as the 8 million who are our advertisers and the funnel between those - that's the nuts and bolts of our business, we work on it every day.

We're continuing to work on it every day through this crisis, and we'll continue beyond that.

David Wehner: Mike, we'll go to the next question.

Operator: Your next question comes from the line of Doug Anmuth from JPMorgan.

Douglas Anmuth: Great, thanks for taking the question. I have two, I think, probably both for Mark. First, I was hoping you could talk more about the functionality of WhatsApp and perhaps other platforms as you expand in India with the Jio Platforms partnership. Are there other markets where you could see something similar? Or is the strategy here unique to India?

And then second, just given the increased engagement with communication tools and voice and video, in particular, how is that translating into increased activity in the feed and Instagram Stories? Thanks.

Mark Zuckerberg: Sure. I can speak to the first one, and Dave can see if there are any stats in particular to share on the second one. For commerce on WhatsApp more broadly, we're very focused on making it to that small businesses can have a presence on all of the apps, right, Facebook, Instagram, WhatsApp, and Messenger, and can communicate organically with people and then increasingly can do things that can help them drive transactions.

So we've started rolling out things like catalogs in WhatsApp. We're working on payments to be able to complete transactions. And we've rolled out a new ad format click to messaging ads, where basically a lot of small businesses and different businesses are finding that their message threads with people perform better for driving sales than their websites or other presences.

They basically buy ads inside Facebook or Instagram that send people to chat threads. And then as we build out all these tools around that -- around making those threads more valuable, we think that those ads will only increase in value, which is the way we're currently thinking about that business.

In India, with Jio, Jio has had this vision for a while. I want to be careful not to put words in their mouth, but just from what they've basically described both to us and publicly, about their Jio Mart vision, is there are millions of small businesses and shops across India, and they want to try to help get them onto a single network that you'll be able to communicate with through WhatsApp and do payments online through WhatsApp.

So I think of that is a great, very large example of how we can wire up and help small businesses in the country where we have the largest WhatsApp community. But certainly, all the products and technology that we're building to enable that partnership are going to be things that we want to do around the world.

So we're very excited about working with them to drive this vision forward, and then extending it everywhere over the coming months and years. I mean, Dave, I don't know if you want to say anything about the second point. I think it's -- at a high level, I mean, you may have stats that you want to share, but I think it's -- we have seen a broad-based increase in use of the product.

It's hard to know what is just correlated with the pandemic versus people are doing more video chat or messaging. So therefore, they also connect more in other parts of the product.

But I do think, overall, we believe that providing a broad set of social tools for people is -- and just providing more value for people does accrue toall of the different services, which is important because, as you know, some of the services for our business, we include ads in and some we don't.

David Wehner: Yes. And the only thing I'd add there is, we talked about the 39 percent increase in ad impressions, and that's really driven by engagement increases on our feed products and Stories products as well as the surge that we've seen in the video and messaging. So it really wasn't limited to video on messaging. It was broad based, as Mark said, and that's creating supply on the ad impression side as well.

Operator: Your next question comes from Justin Post from Bank of America Merrill Lynch.

Justin Post: Great, thanks. Sheryl, maybe you could talk a little bit about the ad auction dynamics. Are you seeing e-commerce and digital replace auto and other categories? And how efficiently is that auction working? And secondly, can you give us any color on percent of ads that come from direct response versus brand or maybe CPC bidding versus CPM? Thank you.

David Wehner: Sure, I can take that, Justin. In terms of the ad auction dynamics, yes, I mean we are seeing -- when a vertical is doing better than the other or people fall out of the auction, we have very dynamic content.

It's -- and so we're able to backfill that with other bids from other clients. So we're seeing a lot of bidding into the system from gaming and e-commerce. As prices come down, it's also more economic and they can get the ROIs that they want. So it's a natural way in which those -- that happens and you see a replacement effect there. So that's working well.

Far more -- by far, the majority of our revenue -- we haven't given a specific number on what is direct response, but it's really -- for many years, driven our business, it continues to drive our business.

And I would say, if anything, COVID has accentuated the importance of people who are bidding for online conversions. And so I think we've seen a falloff in some of the more sort of broad-based brand advertising right now, and really a focus on those things that are driving direct results today, which isn't really surprising, given the economic climate.

Operator: Your next question comes from the line of Ross Sandler from Barclays.

Ross Sandler: Hi, guys. Just a follow-up to the last question. I think about 4 years ago, you mentioned that the top 100 advertisers were just under 25 percent of revenue and coming down. So I guess, how does that mix look today?

And Dave, I think you mentioned large and small advertisers were kind of pulling back in March and then into April, you've got about the same rate. But any more pronounced decel from large versus small, any color there.

And then second question is, Mark, you mentioned in your opening remarks that something along the lines of high margins are important to the company, especially given the economic environment.

So how do you think about balancing levels of investment with revenue over the long term. Has your thinking around that changed versus, I think, you mentioned in a comment maybe 2 years ago, has anything changed in the way you're thinking about margins? Thank you.

David Wehner: Hi Ross, it's Dave. I'll take that first one. Yes, we've seen sort of a pullback of advertising from both large and small advertisers. And I would say, given the uncertain economic climate, we know SMBs are getting hit hard. But our business is quite diversified, and there's no one size fits all for SMBs.

We've got some businesses that are obviously suffering greatly from the shelter-in-place orders, and then we have SMBs who are also digital natives and have online objectives, and those are doing relatively better. So we've got SMBs who are in gaming and e-commerce and the like.

So we are seeing we are seeing, I think, a fairly diverse range of SMBs. And I would say in terms of the diversity of our business, that remains very high. We're not concentrated, but we haven't updated that specific stat that we gave back 4 years ago, but we remain very diversified from an advertiser perspective.

Mark Zuckerberg: Sure, I can talk to the margins a bit. Overall, I think during a period like this, there are a lot of new things that need to get built.

And I think it's important that rather than slamming on the brakes now, as I think a lot of companies may, that it's important to keep on building and keep on investing and building for the new needs that people have and especially to make up for some of the stuff that other companies would pull back on.

And I think that's -- in some ways, that's an opportunity. In other ways, I think it's a responsibility to keep on investing in the economic recovery. So that's in the near term.

But the other reflection that I've had is that I think if you're going to have a business, which is primarily advertising, which is our plan for the long term, then I think you have to recognize that advertising is more volatile and sensitive to the macro economy.

And therefore, if you're going to have this kind of a business, I think you really want to maintain high margins so that way when we go through periods like this, you can make sure that we remain stable and healthy and able to keep on building the things that are important for the long term.

So what I guess I'd want to just be clear on is that we are willing to accept a reduction in margins in the near term, but we understand, and I personally have an appreciation for the importance of maintaining high margins over time.

So it's not that we're going to kind of take things down this year and then continue taking things down a lot in the future. I think over the coming years, if we invest a lot more now, I think we are going to look for ways to manage expenses to make sure that we can maintain high margins over time.

Operator: Your next question comes from the line of Youssef Squali from SunTrust.

Youssef Squali: Great, thank you very much. Two questions. Mark, can you discuss the performance of your gaming platform including Oculus so far? How satisfied are you with the traction there and what are you doing to better position the company to take advantage of the increased engagement we're seeing on other platforms, competing platforms?

And maybe, Dave or Sheryl, can you speak to the trend you're seeing in markets where COVID-19 hit earlier, say, maybe January and February and how they're performing today, and any learnings from these markets? Thank you.

Mark Zuckerberg: Sure. So I can talk a bit about games. We have a few big areas of investment here. One is just in our mobile apps, a massive amount of growth in live streaming.

That's -- I talked about live video in my opening remarks, and people live streaming gaming content is certainly one big category that's growing quickly and that we're investing a lot in. So that, I think, is going quite well.

We recently had some pretty big launches of an app in that area, and we're going to keep on investing there. And on the virtual reality side, this has always been a long-term vision. Quest has surpassed our expectations. I wish we could make more of them faster during this period.

I do think that it's one of those areas where as people can't go out into the world as much, the ability to have technology that allows us to be physically present or feel present even when we can't be physically together, whether that's Quest or Portal, or any of the software that we're building around video presence, that stuff has certainly seen especially large spikes in usage.

And it's possible that this brings -- accelerate some of the trends around adoption of things like virtual or augmented reality, but I'm not sure what will happen there long term. But in the near term, I'm quite pleased with how Quest is doing, and I wish we could make more of them.

David Wehner: Youssef, I'll take the second part of that question. So I think probably the market that would be most instructive would be a market like China. But I think for us, China is a bit different because we don't have users in China. So the business there is China-based advertisers reaching people outside of China.

So it's hard to extrapolate too much from that. We did see a pullback of revenue in China earlier in the quarter. And we have seen a recovery there and a recovery -- but one thing that's hard to know is part of that is really kind of mixed up in the verticals as well.

China tends to, for us, index pretty highly with gaming and e-commerce, and those segments that are driven towards online outcomes where we're seeing relative strength. So, it's hard to really read too much into the experience.

Operator: Your next question comes from the line of Eric Sheridan from UBS.

Eric Sheridan: Thanks for taking the question. Maybe two, if I can. One bigger picture one. Dovetailing all of the comments around e-commerce, I'm curious if there's anything you're seeing in terms of the behavior of users on the platform that would make you want to accelerate or change the path of product development to capture of the supply and demand you might be seeing as people want to sell in an omnichannel world and some of the demand that might be there on the buyer side to connect e-commerce broadly across Facebook's properties as an output of the current environment.

And then, Dave, maybe if I could just ask one quickly. I don't think you called it out, but I am curious if you could identify the credit loss assumption in the quarter and what the number might have been, or is that something we might have to wait for the 10-Q for? Thanks so much.

David Wehner: Mark, did you want to -- do you want to take the e-commerce? Or do you want me to do both?

Mark Zuckerberg: I mean, I can talk to it briefly, and then you can add to it if you think that there's more. We are seeing increases in some of the consumer behavior around this. But I think the bigger thing is just that for all the small businesses that we serve, and a lot of small businesses that are out there that are still primarily physical, there's a -- there's been a big push to get online and to do more selling online.

And I think that there are lots of opportunities for us to support them in building the tools that they need to do this. We're seeing a lot of businesses that were primarily physical, now moving towards selling stuff online for the first time, and we're seeing a lot of businesses that already had a digital presence now really transition to having their digital presence be their primary presence.

And that -- I think that, that trend, while there may be some short-term spike, I do think plays into a pre-existing long-term trend.

And we'll certainly want to accelerate that aspect of our product road map to make sure that we can serve a lot of those businesses during this period when it can help them with the recovery and get through this. So we're working on a lot of work streams there. We'll hopefully have more to share over the coming weeks.

David Wehner: Yes, Eric, on the bad debt expense, that increased by $193 million, so that will be the number that's in the Q. And the majority of that relates to charges, obviously, that we're taking related to the COVID-19 pandemic and our views on collectability of certain accounts in that environment.

Operator: Your next question comes from the line of Mark Mahaney from RBC.

Mark Mahaney: Thanks, two questions. Mark, at the very beginning you talked about the economic fallout possibly lasting longer than people think. Just any detail behind that. Is there something you're seeing in the data? Is it your gut reaction?

And then following up a little bit on Eric Sheridan's question, these kind of events, crises, can create new, I don't know, paths, streams or whatever. So you talked about shopping.

What about WhatsApp? There's the surge in usage of WhatsApp, is there something that's happened that makes it more interesting more -- for long term, more interesting as a monetization vehicle because of the surge in usage of WhatsApp? Thanks.

Mark Zuckerberg: Sure, I can take those two. I think that we'll see a meaningful economic hit, if I had to predict, for the period of the health emergency.

And so I think that, as Dave said in his comments, the efficacy of the shelter-in-place orders and how well that's going, I think will be a big determinant of how long and how painful the economic fallout is from this.

So there's certainly a range of outcomes. I don't think I have any particular insight that's not public or that you don't have, but I worry that this could be worse than at least some people are predicting.

The other question was monetization on WhatsApp. I think there's a huge opportunity on WhatsApp, if for no other reason than that it has 2 billion people using it and we haven't done significant work on building out the business yet.

We have some tools there but we're still early in the phase of -- we've built out WhatsApp business. There's tens of millions of businesses that are signed up and that are using that. So it's -- there's tremendous demand. People want to communicate with businesses.

And we've been in the process of building out the infrastructure to do payments and more commerce. Ad units like what I mentioned around click to messaging ads are performing well. So I think all the indicators are positive. But it's just a generally untapped opportunity so far and one that we're -- that I think is very exciting to build out over the coming years.

David Wehner: I think Deborah is trying to say that there’s one last question.

Deborah Crawford: Yes, thank you.

David Wehner: So, Mike if we could just take one last question, please.

Operator: Our last question comes from the line of Colin Sebastian from Baird.

Colin Sebastian: Great, thanks for taking my question. I guess, first, Dave, I was hoping -- I know this is not a key focus right now, but any updated thoughts or a time line on some of the targeting and measurement headwinds that you spoke about on the last call.

And then with respect to both the ongoing investment priorities as well as the slower growth in head count, is there any way you could articulate which areas are seeing that slowdown versus those that are getting full support? Thank you.

David Wehner: Sure, Colin, if I can take both of those. Yes. I mean, the targeting headwinds are having an impact on the business but obviously, that's dwarfed by the impact that COVID-19 is having right now.

We continue to see the three factors around targeting, and this hasn't changed. The regulatory pressures with GDPR and CCPA and similar regulations. The moves by platforms that make third party targeting and measurement more difficult. And then our own moves on launching privacy controls.

So these are impacting the whole industry, and we believe we're relatively well positioned. We've got a lot of first-party signal.

That said, I think this will have a broad impact on return on investment and could affect what advertisers are able to find and acquire customers effectively for their businesses, they may not be able to grow as quickly as they otherwise could.

And that could have a negative impact on their growth and the economy, and obviously, revenue for us. So certainly, it's a challenging time to make it tougher for businesses to grow. But we're certainly -- continue to have that headwind in the longer term.

Deborah Crawford: Great, thank you for joining us…

David Wehner: I'm sorry, I forgot the investment priorities. We're continuing to focus on recruiting on the tech side, so product and in engineering. So we're sort of fully going down that path.

That's both our core product and also our innovation efforts, and we are slowing down head count in business functions. So some of the functions related to things like advertising sales - slower in those departments, given the overall economic climate. And then there are certain areas there we're just finding efficiencies. There's less travel, there's less entertainment.

I think that may persist for quite some time, so we're seeing savings there. And we're going to be looking at getting marketing efficiencies because obviously, prices are coming down on the marketing front so that we can get the same impact for less dollars and also for efficiencies on marketing spend. So those are the areas that I would call out.

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

David Wehner: Thanks, everybody.

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