

**Facebook, Inc. (FB)**  
**Second Quarter 2020 Follow Up Call**  
**July 30<sup>th</sup>, 2020**

Operator: Good afternoon. My name is Julianne, and I will be your conference operator today. At this time, I would like to welcome everyone to Facebook's second 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'd like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements.

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

During this call, we may present both GAAP and certain non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release.

The press release and an accompanying investor presentation are available on our website at [investor.fb.com](http://investor.fb.com). And now I'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 John Blackledge from Cowen. Your line is open.

John Blackledge: Great, thanks. Two questions. On Instagram Reels, Dave, it's being rolled out in the U.S. sometime in August. Could you just discuss usage engagement you've seen on Reels in the markets where it's already been released?

And thanks for calling out commerce and gaming as key verticals of strength in the quarter. Just curious, are there other verticals that were strong? And kind of along those lines, more broadly, curious how app download growth was on Facebook and Instagram in 2Q? Thanks.

Dave Wehner: Hey, John. Thanks. So, with Reels, we're excited about it, but it's clearly early. In June, we began testing a new version of Reels in Germany, France, and Brazil. We then extended the test to India in July. Obviously there's an opportunistic component there, given the India decision to ban TikTok.

So it's – we're -- it's a little bit early to be talking about engagement. We like the product. We think it has promise. But still early days, and we'll be updating people as we get more data.

In terms of verticals that were strong besides commerce and gaming, we have retail as a separate vertical. But that's – I think what we see in retail is really people who are effectively more traditional retailers doing more online commerce. So I think it's somewhat blended with the e-commerce numbers.

We saw strength in – reasonable strength in CPG. And then we also did see – you know, in terms of a smaller vertical, I think education was strong in terms of growth. So again, nothing terribly surprising there.

I think you're looking at products that can drive online conversions and I think help with people in the sort of stay-at-home environment.

John Blackledge: Yeah.

Dave Wehner: So downloads, app downloads, I mean, from the perspective of gaming, you know, that's our biggest part of mobile app install.

So we saw strength there, especially at the beginning of the quarter, given that pricing was much lower in the auction and you saw a lot of the game guys come in who just have always open bids for lower priced inventory, and they were able to scoop some up.

John Blackledge: Great. OK, thank you.

Dave Wehner: Thanks, John.

Operator: Your next question comes from Colin Sebastian from Baird. Your line is open.

Colin Sebastian: OK, thanks. I have a couple. The first was just related to the acceleration in Oculus and Portal. And, Dave, you called out some of the investments, obviously, in AR and VR. It seems like pretty opportunistic period, you know, not only for gaming, but communications and commerce and with these devices and technologies.

So I just want to clarify, are these now all more on the front burner, in terms of how I may see this play out on the product roadmap? And does that include integration - - more integration between hardware and the apps?

And then secondly, just quickly, you know, mentioning the ad targeting headwinds, what have you seen thus far in California with the CCPA, if that can be maybe a proxy for how we can evaluate the other rules over the balance of the year?  
Thanks.

Dave Wehner: Sure, Colin. So, look, I mean, the – in terms of sort of our investments in areas like Oculus and Portal being on the front burner, I would say clearly the AR/VR strategy from a pure investment perspective is very clearly on the front burner. I've called that out, in terms of the driver of our R&D investment.

So, yes, that's an important area of investment. I think the success of Quest has, I think, reinforced that investment but we were already sort of leaning fully into that. I think Portal was a little bit less clear, and I think the success of Portal during the— during this crisis, I think has reinforced the importance of that product.

So, I think both have good opportunities. But obviously, the investment is much more significant, given the technology required to kind of bring AR and VR to life.

The investment is much more levered against the sort of Quest and augmented and virtual reality products versus Portal.

In terms of ad targeting headwinds, obviously, the regulatory landscape is one of the key headwinds that I've called out as being factored into the Q3 outlook and beyond. You know, in the near term, that's really around implementing CCPA. And in the longer term it's more potential for further similar regulation across the globe.

We're seeing an impact to the business from CCPA today. We don't know what the impact will be. How things play out will depend on advertiser implementation, adoption rates in terms of opting out of tracking. So there's a lot of uncertainty as to how it plays out.

But, you know, CCPA is a – it's a pretty strict regulation. And it applies fairly narrowly geographically obviously, given it's California. But it's definitely something that we're watching and we do think will have an impact this year.

Operator: Your next question comes from Brian Fitzgerald from Wells Fargo. Your line is open.

Brian Fitzgerald: Thanks, guys. I had a couple questions. Mark had made some points on competitive dynamics in messaging and video, and I understand it's a totally different audience, but on video specifically, could you parse that out a little bit in terms of how do you differentiate and solve for that problem in the U.S., where it seems like the consumers are defaulting to what's on their mobile hardware?

And then, Dave, really quickly on headcount, you said you're pleased with your endeavors there, but could you talk to us about how you're adapting to recruiting and onboarding efforts in this environment and the dynamics you're seeing in the market with headcount?

Dave Wehner: Sure, Brian. Let me make sure I understand the video question. I didn't – I don't know if I quite understood – maybe I missed what Mark was saying. But in terms of, what does it have to do with the hardware? Sorry, I...

Brian Fitzgerald: Well, so he just said, look, we're in very competitive environments in messaging and in video. And so don't assume that we're taking over everything for granted and he pointed out other people that have the number-one video platform to begin with.

So how do you break into that? How do you differentiate? If your endeavor is to get more into video, how do you differentiate and get your product more traction there?

Dave Wehner: Got you. Yeah, I mean, certainly on messaging, you've got default messaging for a big part of the universe in developed markets is iOS with iMessage. So that's an inherent advantage that Apple has in terms of sort of defaulting people to iMessage.

And there it's just really about building the best product, and I think, we've got two great products in that space with WhatsApp and Messenger. And I think just continuing to execute on the product roadmap there – I think WhatsApp clearly internationally is, you know, super powerful, especially in markets where there's strong Android adoption, and I think that makes – it's kind of makes it, you know, very essential to have on any mobile device.

Video, I think you've got a couple different angles there. You've got YouTube that continues to do well. And we've got things like Facebook Watch and sort of up against that to some extent.

And then TikTok obviously has been a phenomenal success in terms of discovering incremental opportunity in video, in terms of short-form video.

And we're clearly trying to do more in that space with Reels. So I think it's going to be a question of executing on both the Watch front and the Reels front in terms of how we can continue to grow our video efforts.

Video is extremely important to Facebook itself. And, you know, in-feed video is a big part of consumption. Certainly in-feed video ads are a big part of how advertisers tell their message, as well. So video is important across the board, and I think we're trying to execute in a variety of different ways to get incremental opportunity there.

On the recruiting and onboarding, yeah, we had over 4,200 net new hires in the quarter. So, record in terms of adding new people in Facebook. We were successful in both hiring new employees, as well as retention, which was very strong this quarter.

I think some of that is just circumstantial, given COVID and the lockdown, I think. But we are recruiting people and bringing people in on that end, so I think we're successfully luring people from other companies, but not losing people. So that's, I think, very encouraging.

In terms of our success onboarding, I mean, we've – I think we added more people this quarter than were at Facebook in the quarter that I started working at Facebook.

So, we are successfully onboarding new people and getting them productive. As things drag on, we'll have to see if that becomes more challenging in terms of culture and maintenance, but, you know, at least right now, things are successful.

Brian Fitzgerald: Thanks, Dave. Appreciate it.

Dave Wehner: Thanks.

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

Lloyd Walmsley: Thanks. I guess first question, just on the boycott, do you think that come August you'll see the bulk of those budgets back on the platform? Or do you think there's a decent chance a material amount drags on beyond July?

And then second one, just as you push harder into e-commerce broadly with Shops, Instagram Checkout, and all of that, how are you guys thinking about, if at all, the search and the potential to monetize paid search?

Is query mix starting to change at all away from people towards stuff you can monetize? Anything you can share there would be great, thanks.

Dave Wehner: Yeah, sure, Lloyd. On the boycott, I guess it's certainly possible that we could get a boost, a small boost in August if some of the advertisers on pause return to spending. But, obviously, there's uncertainty on that front.

I would just say, as a important context, we've got a broad set of advertisers. It's very diverse. You know, 9 million advertisers. I gave the stat in terms of the top 100 advertisers who represent, it's sort of 16% of revenue in Q2. And I think it's

important context that our top 100 advertisers – there's – it's not the same as the top 100 advertisers sort of in something like the Ad Age 100 list. It's actually – I think, it's certainly not a majority of those top 100 advertisers. A minority of those top 100 advertisers would be on something like the Ad Age 100 list.

So I think it's – it's a broad, diverse set of advertisers that drive our business. So, I think it's having an impact. It certainly was one of the factors we saw in July. We think it'll have an impact in Q3. But it's within the context of it being a broad, diversified business.

In terms of commerce, I think paid search is not – it's not part of the strategy right now. Really, the strategy there is for us to take the success that we've had driving top of the funnel demand generation, but really trying to make the entire funnel of e-commerce better for consumers and merchants. And that's what we're focused on.

So Shops that we launched in May is that sort of immersive, full-screen storefront that helps businesses build their brand and drive product discovery, and we're just trying to make it a seamless experience for our community. And we think that's going to be good for consumers and good for advertisers in terms of just driving more conversions.

Lloyd Walmsley: Thank you.

Dave Wehner: Yes.

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

Dave Wehner: Jason?

Jason Helfstein: Sorry, on mute. How are you? Thanks. Two questions, kind of both – well, I guess I'll do one boycott-related question and one back to the Instagram Shopping. So, I mean, are you assuming any – with your just comments about the third quarter, are you assuming those dollars come back or kind of more steady-state?

And then the comments made about GARM and MRC, I mean, to the extent that there has always been some brand questions about measurement, to the extent

that those initiatives get done, do you think that can have an overarching benefit to the platform, beyond just quote, unquote, "the boycott," but just more confidence in what advertisers are buying?

And then just a follow-up. We really didn't hear much on Instagram Shopping, if I heard correctly, on the call. I know it's still early, but did that move the needle at all in the quarter? Thanks.

Dave Wehner: Sure, Jason. So in terms of the boycott, I think we're certainly factoring in that the boycott is going to have an impact in July and there's going to continue to be lingering impact throughout the quarter, and that's consistent with the guidance I gave.

But I also cited other factors in my prepared remarks and in the comment, in terms of macroeconomic headwinds, the normalization of engagement trends, as we kind of roll off the shelter-in-place, as well as sort of ad targeting headwinds.

So there's kind of a number of different factors that come into that. But some persistence in the boycott is also factored in. We do expect to see some of that revert, but there will be a persistent effect.

You know, in terms of GARM and MRC, I think it – those are addressing kind of I think some of the concerns on the – some of the things that some of the advertisers on pause had asked for.

The reality is our business now is – the vast majority of it is direct response, people kind of really optimizing for business outcomes as opposed to brand advertising.

So brand advertising is not going to be a big – it's not going to be a big needle mover, given the scale of it. And it's been growing more slowly than direct response for as many years as I've been at the company.

So it's been a shift to direct response and direct response growing more quickly. So, you know, GARM and MRC I think are less important from that perspective and more kind of related to the boycott.



And, you know, a lot of the advertisers, too, they're – even some of the bigger sort of more traditional brand advertisers have shifted their dollars to direct response, too, and optimizing for objectives. So, they're sort of learning and growing.

IG Shopping, I think the question was, did it have an impact on the quarter? No, it did not have an impact on the quarter. It was still very small. I mean, we launched it in May. We're starting small.

It's really important to us, and it's – you know, we're fully committed to it. But it's early. It's going to take prolonged effort and a prolonged investment, and we think – we'll obviously keep people apprised of what's going on, but it's early and didn't have an impact in the quarter.

Jason Helfstein: OK.

Operator: Your next question comes from Rich Greenfield from LightShed Partners. Your line is open.

Rich Greenfield: Hey, thanks for taking the questions. You know, Dave, just circling back to the growth categories – I mean, clearly, retail and e-commerce, we're seeing e-commerce sort of grow multiples above what it was pre-pandemic.

And so I guess, when you think about what's constraining the guidance or the commentary around Q3, you know, I guess, if it wasn't for the boycott and it wasn't for IDFA, like, would you be growing as fast, if not faster than you were pre-pandemic?

Because, obviously, you know, e-commerce is such a big part of sort of the advertisers on your platform, and you talked about how what's happening, and sort of this being sort of the only solution for stores that are closed.

I'm just wondering, like, how do we reconcile that type of explosive growth that we're seeing sort of across e-commerce, with your commentary for Q3?

Dave Wehner: Yeah, I think, Rich, we – I mean, there's a couple other factors that really are important ones that I would kind of call out. One is just, we don't know what the macroeconomic landscape and how it impacted us, but, there was a fair amount of stimulus put into the system.

You've got things like the CARES Act rolling off at the end of July. Whatever stimulus is going to come in the U.S. is likely going to be at a lower level than the CARES Act.

Did that play into strength in e-commerce in our business and in other people's businesses? I think it's very hard for us to understand that, so we don't know.

I think the more prolonged recession, I think you could have – and I'd sort of – we're sort of cautious about the macroeconomic outlook from that perspective, because I think you've got some stimulus playing into this at some level. So that's I think one thing that I'd point out.

The other thing that I'd point out is we did see engagement as the quarter progressed start to revert back to – revert back towards pre-pandemic levels. So that's going to have an impact on the supply side, in terms of impressions. So that's another factor that's coming into our guidance.

Rich Greenfield: And then...

Dave Wehner: (inaudible)

Rich Greenfield: What about – what about back to school, just in terms of – what about back to school? I mean, Snapchat called out back to school as sort of a scary unknown. Does that kind of play into the broader commentary that you're looking at, is just the lack of visibility on back to school?

Dave Wehner: You know, I've not really tracked back to school being a big seasonality driver for us historically. So I don't – I wouldn't necessarily call that out. We did see education be a good growth vertical in Q2. But I suspect that was more from the online education point of view.

Rich Greenfield: Very helpful. Thank you.

Dave Wehner: All right. Thanks, Rich.

Operator: Your next question comes from Dan Salmon from BMO Capital Markets. Your line is open.

Dan Salmon: Hi, Dave. Two quick questions. You talked a lot about video, you know, but it still largely sounds like, you know, the platform that you've (inaudible) your usage in already in mobile.

So the question was, how do you look at the connected TV eco-system and advertising buys in there? Watch certainly has an app across most of those platforms. Is that important to Facebook? Should you be pursuing it more? And then, just one more follow-up after that.

Dave Wehner: Sure, Dan. I mean, I think connected TV just – it's hard to imagine that being a platform that's going to have scale of – you know, from an advertising perspective of mobile.

So it's not something that factors at least into the drivers that I've looked at and focused on. So, connected TV is not playing into, kind of – at least the outlook that I'm looking at.

Dan Salmon: And then the follow-up – I think Mark mentioned, you know, over 10 years sort of moving towards 50% of employees at home. I'd assume there is some long-term margin opportunity from that, or, just thinking back to some of your comments over the past few years about outlook for margins, is that the type of thing that we should hear and assume that there might be a little bit of an uplift over that over admittedly a very long horizon?

Dave Wehner: Yeah, this sort of came up on the main call. And I probably want to inject a little bit of caution here. I think, to the extent that we're able to do more work from home, I think it's going to expand our ability to recruit people on the engineering and product side.

And I think that's going to – I think expanding the aperture of people that we can recruit to the platform is likely going to – because many times we've had – you know, our expense growth constraints have been on the recruiting side.

So, opening up the aperture of more people that we can recruit I think doesn't necessarily – I wouldn't say it pushes down our expense outlook, because I think it could mean that we're seeing opportunities to invest more aggressively in product, because we can hire more people with the talent set that we need.

So hard to say how that will play out, but that's definitely a factor that I would have in mind when you think about the work from home environment. You do get some savings on, like, the real estate side, the amenities side. Now, the savings we're getting right now, a lot of that is from savings on travel and events.

And I do think in a non-COVID work from environment, you're going to have a lot of the people who are working remotely traveling to Menlo Park and to other offices to collaborate on a periodic basis.

And I think some of that expense is going to offset the expense that you get on amenities on an in-person basis. So it's hard to know exactly how that settles out. But, yeah, I think that's the color I would give on this.

Dan Salmon: Great. Thank you.

Dave Wehner: Yep, thanks, Dan.

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

Dave Wehner: Hey, Brent, you there? You're muted.

Operator: Brent Thill?

Dave Wehner: Maybe he's on CNBC. OK.

Deborah Crawford: Operator, should we...

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

Michael Nathanson: Thanks. Thanks. Thank you. So, Dave, I had two. In your volume update in the prepared remarks, you mentioned that there are some product tweaks to the Newsfeed, and that really helped engagement. So you talked a bit about what those changes were to product. When were they made?

And then second question is, we've all, over the years heard about the headwinds to targeting and we know they're serious, but Facebook has powered through those changes.

And maybe we don't see it from the outside, but your growth has been pretty resilient and, in fact, impressive during all these changes. So all of our clients are worrying about IDFA and what it may mean. And I wonder, is this the change that we should be paying attention to?

Because I would say we've all been a bit numb to the changes that happened to this point. So I'd just love to hear your take on, is this something that we should really be aware of in terms of potentially slowing down your ability to drive ROI?

Dave Wehner: Yeah, let me take that second one, because I think it's – I'll take that first. I think it's one you really want to be paying attention to. So, as people know, Apple indicated plans on how to change – how IDFA can be used with the upcoming iOS 14 update.

In addition, they've taken some broader policy steps that impact how data can be used by advertisers. So, this is going to have, I think – we're trying to understand it, and exactly what the changes will mean to us, but it's clearly going to make it harder for app developers and others to grow using ads on Facebook and, really, outside of Apple, to some extent.

So I think it is something that people need to take very seriously and make sure that they understand. And so, yes, our advertising clients are asking us about what we can do to help maintain their performance and it's an area of concern.

Just from a pure timing perspective, look, I think we've seen these online platforms like Facebook and targeted ads have really been a great help to help small businesses during a time when that lifeline online is so important, and we are concerned that aggressive platform policy changes will cut at that lifeline at a time when businesses really need it to grow.

So it's clearly something that we think warrants watching and something that we're going to try and understand better as the year progresses. But we do think it's a headwind.

It's not going to be a big impact in Q3, because the changes don't start rolling out until the end of Q3, and there will be some phase-in period in terms of just upgrade cycles to iOS 14. But it's definitely something to watch. I think this is an issue.

Sorry. On Newsfeed, no, not anything I'd specifically call out. I think we did make some optimizations. There were some ad load increases, as well. So I think that's all I would probably put on that.

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

Operator: Indeed. Your last question comes from Stephen Ju from Credit Suisse. Your line is open.

Stephen Ju: OK, thank you. So, hi, Dave. I guess the worst thing that could...

Dave Wehner: Hi, Stephen.

Stephen Ju: Hi. I guess the worst thing that could happen in this environment is to not have enough data center capacity when your users are clamoring for your services. So I guess you signaled some of this with the CapEx guidance at the high end of the prior range, but do you feel like you are currently properly provisioned in terms of capacity?

And I guess, secondly, this might be somewhat of a Captain Obvious thing, but, yesterday, as I watching Mark get called in front of Congress for the second time, it seems like Facebook is getting hit with the blame stick, even as there is no real set policy on what type of content you should or not be screening and showing or not showing.

So I guess it would be really helpful for us to hear that behind closed doors, like, discussions with people who are actually setting and implementing policy is, kind of different versus what we're watching on TV. Thanks.

Dave Wehner: Yeah, let me – I'm not sure I – I'll try and answer the second question, but I'm not sure I totally understood it. So I'll get at it.

In terms of data center capacity, I mean, we are working to invest and grow. We do think that thankfully we were able to get some – get construction going back more quickly than we had anticipated on our second quarter call, and that's why we increased the guidance range to \$16 billion up from the \$14 billion to \$16 billion range.

You know, we're happy with our ability to handle engagement surges like we've seen. So we're pleased on that. But we need to continue to invest both in building new capacity and also our own internal efficiency efforts to make sure that we've got headroom for growth.

But part of the reason we were able to handle the surge of engagement that we had was that we did invest in having headroom in our data center capacity over the past few years. So that's the case.

Look, I think the challenges with content moderation are obviously very real. You've got – I think you've got some constituents who would like us to play a much more aggressive role on content moderation and take more things down and others who would like us to play a less aggressive role on content moderation and take fewer things down.

And so we are trying to, I think, hold our values, which are we're a platform for free expression, but also have clear community standards and guidelines that we enforce fairly against.

And there we tend to be very focused on categories of things like hate speech that would cause imminent harm and we're focused on the misinformation side, on things that would cause imminent harm, and specifically things related to the current COVID crisis.

But it's – it's obviously – it's a very political issue. And I think that's true for anyone in the online content business right now, Facebook and Google and Twitter.

Deborah Crawford: Great, thank you everybody for your questions. And thank you for joining us today. We appreciate your time. And we look forward to speaking with you again.

Dave Wehner: Thanks, all.

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