Good afternoon. My name is France, 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 one then the number four on your telephone keypad. This call will be recorded. Thank you very much. And, 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, and Susan Li, VP of Finance.

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 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 the 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. And now I'd like to turn the call back over to the operator for the first question.

Thank you. We will now open the lines for a question-and-answer session. To ask a question, press one then the four on your touch-tone phone. Please pick up your handset before asking your question to ensure clarity. If you are streaming today's call, please mute your computer speakers. And our first question will be from the line of Ron Josey with JMP Securities. Please go ahead.
Ron Josey: Great. Thanks for taking the question. Dave, I wanted to follow up on just Reels, either details on usage or monetization approach. I think the product launched about a year ago, Mark’s comments saying it’s the largest contributor of engagement on -- engagement growth on Instagram is pretty impressive.

So any insight on Reels, monetization, or usage would be super helpful as we think about, you know, newer products launching and monetization. Thank you.

David Wehner: Yeah, hey, Ron, it’s Dave. Yeah, I mean, Reels is going well. It’s still obviously early in its launch, but we’ve now rolled it out to 80 markets since launching it about a year ago. And it is becoming a meaningful part of people’s experience on Instagram, so we’re pleased with that.

We’re continuing to invest in the experience with ongoing product enhancements, so we’re working on things around discovery. And there it’s primarily recommendations and ranking, leveraging some of the AI investments that Mark talked about on the call, which is an important area for surfacing content and trends and showcasing creators.

And then on the ads front, you know, ads are now available to all advertisers and in almost all markets where Reels is live. It’s still very early on the advertising front, but we think this should be a good ad format. It’s very akin to Stories. The ads feel native. And it’s short enough content that you can intersperse advertising I think somewhat naturally. It’s probably a better video format for ads than longer-form content on Watch.

So it’s an area we’re excited about investing in. And we’ll continue to update you guys as we roll out both the consumer experience and the advertising experience.

France, can we go to the next question, please?

Operator: Absolutely. Our next question is from Jason Helfstein with Oppenheimer. Please proceed.

Jason Helfstein: Hey, thanks. I have two - so, Dave, you didn’t talk about ecommerce/shopping as a potential headwind in the back half. So is it fair to think about -- I mean, some of this was pulled forward, some of it was potentially permanent secular change? Do you feel like some of the ecommerce and shopping demand you’re seeing is actually kind of more permanent?
And then second question. I think a lot of us, as we think about the outlook for the business and the kind of measured media and how much share you can take versus others, we're starting to think about what's not captured in that measured media.

And beyond just kind of shopper marketing and promotional budgets, I think a lot of those macro figures didn't really capture really SMB spending.

And so maybe just talk about how you guys think about the addressable market, maybe relative to what, you know, some of those traditionally published kind of ad buy estimates are. Thanks.

David Wehner: Yes. Susan, you want to take a crack at the first one?

Susan Li: Yeah. You know, on the first question, we've looked at kind of the different vertical trends in geographies around the world that are in different stages of sort of COVID recovery and restrictions easing.

And I mean, we would say that the -- from what we are looking at, the shift online in terms of consumer spending behavior, appears to be sort of a new normal, so we think it's a more -- you know, it's a more permanent behavior. It's obviously too early to know for sure.

But we're hopeful that that's the case, kind of based on all of the trends that we're seeing around the world.

David Wehner: Yeah. And, you know, Jason, I would say the last year I think -- you know, any of us in the forecasting business have had -- we have to approach all of it with a fair amount of humility as to understanding exactly how behavior is shifting, because I think there are some pretty big macro things going on, with stimulus, with the shift online, and how all things play out. It's going to be difficult to predict.

But at least so far we're seeing a recovery in some of the kind of what we sort of think of as being the COVID impacted verticals. Some of those are more service oriented. We looked at sort of product and service and U.S. consumer expenditures in those two categories.

And what you see is that, you know, on a -- you know, the year over two-year basis, there's really a big jump in consumer expenditures on products. So even looking past the COVID period, so it's in a very strong growth trend, very much out of the norm.
And then we're seeing services spend come back, as well. And so unclear kind of whether this is a result of the amount of stimulus that's in the market, if some of it is consumer savings. I think there are some big macroeconomic effects at play there that are going to be hard to predict.

In terms of your question on addressable market, I think it's a really interesting one. It's one that I have, you know, continued to think about. As we think about the overall opportunity here, it's just -- kind of the ongoing digitization of everything is this big, big trend. It's part of what the metaverse is a part of, is a broader, longer-term trend.

But in the nearer term, I think it's taking place when you think about how people are discovering products. They're not going to shopping malls as much. They're discovering them through digital experiences like Facebook and Instagram, or -- you know, products like Google and products like Amazon. So you're seeing this digitization trend.

And what that means is I think there's parts of the economy that maybe were part of the value chain in a more analog world that are getting brought online and opens those dollars that were maybe allocated in places like rent to things like digital advertising.

But it's hard to know exactly how those different things play out, but we do think that that's part of the overall opportunity for us in the long run, is just this big macro digitization trend. France, do you want to go ahead and go to the next question?

Operator: Our next question is from Brian Fitzgerald with Wells Fargo. Please go ahead.

Brian Fitzgerald: Thanks, guys. A couple ones. Maybe a follow-up to the main call on ATT. Apple had made some changes and adjustments to what developers are allowed to do, kind of pre-consent flows.

And so we're wondering -- I know you said, hey, it's kind of as expected, but are you seeing anything kind of post Apple making changes that kind of -- is changing the way advertisers or users are opting in, post this kind of pre-consent flows?

And then the second follow-up to that one was, are you seeing advertisers migrate to some of the products that remain kind of available, like uploaded custom audiences?

Susan Li: On the specific -- I'm not sure I know exactly what all the specific consent flow changes are. In general, the -- I think the impact of ATT has been really quite close
on almost all of the dimensions that we look at when we think about kind of the iOS adoption curve, the opt-in rate, the impact post opt-out to ARPU.

Those have all been quite similar to the early projections that we had that we kind of had factored into our Q1 and Q2 guidance. So I think -- so that's really been pretty consistent. And I think in the landscape we're at now, effectively we're looking at the sort of primary buckets of mitigations.

There's -- obviously, there's conversion to API which allows advertisers to share data for the opted in users over server side channels. And then we also have the Aggregated Events Measurement tool that's allowing us to receive aggregated campaign-level data for opted out users.

And so I think the impact kind of to -- to our revenue ecosystem has been pretty in line with how we expected those would perform.

David Wehner: And I think there's always the opportunity, I mean, given the -- Apple is obviously -- and Google with Android, they have a lot of power as platform providers. And so I think there's always an opportunity or risk, and we call that out clearly in our risk factors, of them changing things.

So we have to continually monitor this and see if there's any changes coming and then, you know, update everyone accordingly. But at least so far, like Susan said, it's been largely in-line. Why don't we, France, go to the next question?

Operator: Our next question is from Stephen Ju with Credit Suisse. Please go ahead.

Stephen Ju: Hi. Thank you. Hi, Dave. So between the traffic and the access to traffic that you offer, payments, you know, communications and messaging, and with the acquisition of Kustomer, it seems like you have -- looks like the makings of a full-service solution for merchants who already have profiles on your platform.

So is there a desire to roll out an ecommerce enablement solution for transactions that may be happening off Facebook, as well, because you already have something that's on offer for transactions that will be happening on platform? Thanks.

David Wehner: Thanks, Stephen. I mean, I think our focus is to enable -- really to focus on bringing all these tools to bear on platform today.

I think there are opportunities off platform, but I think there's a lot of open space for us to provide valuable tools to merchants in a variety of contexts, both with things like Shops, to make it easier for them to drive conversions on platform, for
business messaging which is another big investment area, though the Kustomer acquisition has not yet closed, just to be clear, but that does provide additional tools on the messaging front, and we do think there's a variety of useful tools to build for businesses to communicate with customers both kind of in the sales process, as well as in the service of customers, as well.

So we do think there's a lot of value to bring on platform. That's the focus today, I think we've got a lot of work to do just to, I think, enable a lot of the -- a lot of things like payments on platform.

I think there are going to be opportunities off platform, as well, and I'm sure we'll pursue those. But a lot of opportunity on platform today, and where the biggest part of our focus is. France, we can go to the next question, please.

Operator: Thank you. Our next question is from Craig Huber with Huber Research. Please go ahead.

Craig Huber: Yes, hi. Two questions. Maybe if you could just go a little deeper, if you would, please, the changes to iOS. Are you suggesting that you're not seeing any material impact at all to your ad revenue, maybe help quantify that?

David Wehner: No.

Craig Huber: I mean, do you think you'll lose a few percentage points of growth here? Or how do you view that?

Susan Li: No, sorry, I'm not suggesting that at all. We certainly see an impact. It's just the impact is very much in-line with what we had expected sort of going into iOS 14.5 being rolled out.

So that's been factored into -- I think accurately into our Q1 and Q2 guidance that we had given and now into our performance. But there is definitely an impact, although I don't think we've quantified that.

Operator: Our next question is from Tom Champion with Piper Sandler. Please go ahead.

Tom Champion: Hi, good afternoon. Thanks for taking the question. I'm just curious, and apologies if I'm beating a dead horse here. But the impact from ATT, is that something that appeared in the second quarter and sort of built sequentially through the quarter by month?
And just -- Dave, I think you highlighted a deceleration on a two-year stack from maybe 74% to 72%. Is that deceleration driven by ATT? Or is it other factors? Any color on that would be really helpful. Thank you.

David Wehner: Sure. Let me -- a couple things maybe to hit there. First, the biggest factor on the year-over-year growth rates, not the two-year growth rates, is going to be the fact that we're comping against those very strong growth quarters in Q3 and Q4, which builds last year.

Then when you look through those -- and I think we gave a 74% and 72% growth rate for Q1 and Q2, respectfully. And just to clarify, since we did get some questions on this, that's not a stacked growth rate. That's just a geometric growth rate.

It's just literally dividing the Q2 revenue by -- in 2021 -- by the Q2 revenue in 2019, as opposed to stacking the individual annual growth rate. So you'll get a slightly different number if you stack the growth rate, so it's not a stacked growth rate. Just since we had some questions on that.

But, yes, the ATT and other headwinds are a factor in the deceleration on the two-year rate, certainly. So we are seeing that. And your question about whether we saw the impact grow throughout the quarter, yes, we did.

We did see that grow throughout the quarter. And then, we'll get the full impact in Q3 and then expect it to be more or less -- more stable after that. So more a factor of we're getting sort of the full quarter of it in Q3. And, France, you can go ahead and go to the next question, please.

Operator: Our next question is from Ross Walthall with Cleveland Research. Please go ahead.

Ross Walthall: Yes, thanks for the questions. I have two. First, on iOS. You talked about some challenges for advertising partners. Could you just talk about what those challenges are and any efforts you guys have undergone to kind of help improve signals?

And, secondly, on AR advertising, there was some press reporting Oculus opening up ads. Can you just talk about what the opportunity is there and what -- how Facebook's approach might be differentiated versus what some of the peers are doing?

Susan Li: Yeah, so on -- in terms of sort of the mitigations that we've been helping advertisers adopt to mitigate the impact that they're seeing from iOS 14.5, the two I think big sets of tools, again, I think, for opted in users, that's conversions API, which allows
sort of the data to come over server-side channels instead of over the browser. That -- adoption of conversions API has been pretty strong.

Then there are these other platform APIs. I gave an example earlier of aggregated events management. And that lets us receive aggregated campaign-level data for opted out users.

So if you can imagine for, like, an opted in user, previously maybe you'd gotten the data like, "This purchase took place on Nike.com, made by user X, for X product, for Y price, at what time," now they've opted out. And so with AEM, you sort of get, under a campaign level, for some sort of products in some price range at some point in the last 48 hours, a purchase took place which follows, following an ad click on Facebook at some point in the last seven days.

So you sort of get a delayed, aggregated version of the data, which, while obviously as not as performant as real-time data, has definitely mitigated some of the impact.

David Wehner: So I think of it as being they get -- there's sort of a -- there's less granular visibility for some of our advertising partners on their return on ad spend. They still get some views on it, but there is less visibility.

And if they re-tool for this world and we improve the tools, we hope to continue to improve the visibility and improve their ability to understand the return on ad spend. But this is a disruptive experience for them. And so that always is challenging. And it's in the face of a strong macroeconomic climate, so I think that's benefiting us. They're going through this in a time where I think overall sales are strong, so I think that's helpful.

Susan Li: And then in the longer term, we are investing in a lot of ad solutions that are not dependent on third-party data, like Click-to-Messaging ads, like Shop ads. Then we're also sort of focusing our AI and machine learning in the ad space to get better at ranking ads with less data. So, I think there are sort of longer-term strategies that we're invested in, also.

David Wehner: And, France, we can go to the next question, please.

Operator: Our next question is from Mark...

David Wehner: Sorry, hang on. We did have a question about AR advertising. Let me really quickly touch on that. That's really nascent. I mean, I think there are going to be certainly opportunities for advertising as we build out the AR platform.
And I think there's going to be very creative and interesting ways in which there's going to be value for advertising in AR, whether you're selling physical products where you can try on things, consider things, or whether you're selling virtual products that you can use in an AR world, there's going to be opportunities for advertising.

So, we think it's definitely a big opportunity, an area we're investing in, but it's really nascent today. Sorry, France, you can go ahead and go to the next question now.

Operator: Very good. Our next question is from the line of Mark Zgutowicz with Rosenblatt Securities. Please go ahead.

Mark Zgutowicz: Thanks very much. I was just hoping maybe you could connect the dots between -- or maybe the factors that are sort of connecting price to revenue, at least leading the last couple quarters here, and sort of -- I mean, I have some hunches as to why, but perhaps connecting maybe more brand spending along with some iOS changes.

But just trying to understand sort of where the dots are connected here and how long price will be sort of leading revenue. Thanks.

David Wehner: Yeah, I mean, I think in terms of the guidance we've given it's really just through 2021, which is we expect price to be the driver of revenue growth for the remainder of the year.

We're continuing to work on impression growth as a priority. And some of the areas that we talked about there were opportunities scenarios like Reels, other video opportunities, places like Explore and Marketplace, as well.

So we think there are a number of opportunities for impression growth throughout the platform, the biggest ones being on the video side. Price, I think what we're seeing is just an overall strong macro environment. And that's driving higher value for advertisers, because they're seeing higher sales for conversions, as well as -- and so that's playing through in the overall advertising activity.

So I think just the strong macro environment is helping drive pricing and demand. And then we're continuing to work to make ads more effective over time through investments we're making in things like AI and machine learning and some of the tools that Susan talked about, like the Aggregate Events Management API and the like. France, you can go ahead and go to the next question.

Deborah Crawford: Operator, I think this will be our last question.
Operator: Very good. Our last question, then, is from James Lee with Mizuho Securities. Please go ahead.

James Lee: Great, thanks for taking my questions. Mark had talked about on-demand video, like Watch, growing very fast during the quarter. So is there any way you can provide some maybe user metrics and possibly time spent? I think it's been a while since your last disclosure.

And also, secondly, can you give us a sense of size and scale of the creators on Instagram or throughout your properties, and maybe how should we think about the business model and maybe any business model internationally? You can help us think about the proxy and what tools or tech stack do you need to build to get there. Thanks.

David Wehner: Sorry, James, I want to make sure I understand that -- the second part of that question. Internationally for Instagram, for creators, is that what you're asking?

James Lee: Yeah, I was talking about the business model for creators. What other international model, like international peers, who may be a little bit more active in the influencer economy, what kind of -- maybe their model -- their business model can be a proxy for your platform.

David Wehner: Yeah. I mean, we're -- I mean, obviously, advertising is a place where we're particularly strong, so we think that that's an area where we can help creators significantly monetize. So we think that the advertising there is effective.

And then video is a place where we're seeing significant engagement today. And I think Mark's talked about that in his opening comments being a very big part of the Facebook experience in terms of time that people are spending.

Great. So thank you, everybody, for joining this afternoon. And hope everybody stays safe.

Operator: And this concludes today's conference call. Thank you for joining us. You may now all disconnect your lines. Have a great day, everyone.