

Dear There,

As viewed briefly by mail for my issue with Facebook group,

**Herein the most important Speech at the Q218- Earnings Call for Facebook corporation, and then the most Important items in the Privacy & intellectual property**

**– The CEO Mark Zuckerberg Speaking about the growth of the group and the revenue growth for 42 % and the power of the Stories and growth.**

Facebook, Inc. (FB)

Second Quarter 2018 Results Conference Call

July 25<sup>th</sup>, 2018

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 second quarter 2018 Earnings 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 1 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 second quarter 2018 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 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 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 over to Mark.

Mark Zuckerberg, CEO

Thanks Deborah, and thanks everyone for joining us today. We had another solid quarter. Revenue grew 42% year-over-year to \$13.2 billion. And Facebook now has more than 2.2 billion monthly actives, with almost 1.5 billion using it every day.

We're also seeing Watch start to grow more quickly on Facebook too. Our teams are focused on building new experiences that help people connect and start conversations. We recently rolled out Watch Party to all groups, so you can watch and chat with friends at the same time. And we're seeing some real traction with some of the original programs -- from the talk show Red Table Talk featuring Jada Pinkett-Smith to SKAM, an interactive series that started in Norway and features a new style of storytelling where the characters have accounts on Facebook and Instagram and key parts of the story are told not just through video but through posts on their pages.

Stories continue to be a big part of the future of sharing too – and they're growing quickly across WhatsApp, Instagram, Facebook and Messenger. While we started off just implementing the basic

stories format, we've now moved well beyond it and have built lots of new features like polls, questions, and collaborative stories in groups and events. We're also making progress developing Stories into a great format for ads. We've made the most progress here on Instagram, but this quarter we started testing Stories ads on Facebook too.

- Sheryl Sandberg, COO :

It was a good second quarter with ad revenue growing 42% year over year - Mobile ad revenue was \$11.9 billion, a 50% increase year-over-year, making up approximately 91% of total ad revenue. Our growth again was broad-based across regions, marketer segments, and verticals.

And now here's Sheryl to talk about our business.

**Sheryl Sandberg, COO**

Hi everyone.

It was a good second quarter with ad revenue growing 42% year over year. Mobile ad revenue was \$11.9 billion, a 50% increase year-over-year, making up approximately 91% of total ad revenue. Our growth again was broad-based across regions, marketer segments, and verticals.

We are working to ensure that Facebook is a safe place for people and businesses. We've taken strong steps to address a number of issues including election integrity, fake news, and protecting people's information. One of the most important things we can do to effect change is to increase transparency because transparency leads to greater accountability. For example, when anyone can see any ad on Facebook, advertisers have to stand behind the ads they run. Transparency also allows us to get more

The vast majority of ads on Facebook are run by legitimate organizations — from small businesses looking for new customers, to advocacy groups raising money for their causes. But we've seen that bad actors can misuse our products, too, so we're erring on the side of transparency. We're being intentionally broad in our interpretation of political and issue ads. This includes ads for books about politicians and brand campaigns that touch on national issues. Given our commitment to transparency, we think it's important to apply this policy to more ads rather than fewer.

These steps are just the start. We'll keep looking for ways to improve, and we hope these tools become standard across the industry.

As we make these investments in transparency and accountability, we remain focused on our key priorities: helping businesses leverage the power of mobile, developing innovative ad products, and making our ads more relevant and effective.



Second, developing new ad products.

We know that creating video can be more difficult for small businesses that have fewer resources, so we've launched new tools on Facebook to help anyone make videos that work well on mobile. Last quarter we released Ads Animator, a simple way to create eye-catching video ads using photos and other content that's already on a company's Facebook Page. We're also testing Video Creation Kit, which gives advertisers easy-to-use video templates for different marketing objectives. By learning what performs best across our platform, we can help other businesses succeed.

We're also making it easier to run ads on Instagram and in Stories. Ads in Stories are an immersive, engaging way for people to interact with businesses. When online retailer Overstock wanted to gain new customers and increase furniture sales, they ran video ads in Instagram Stories with a Shop Now button. They saw an 18% increase in return on ad spend and a 20% decrease in cost per acquisition. This quarter, we made it easier for more advertisers to adopt the Stories format. When an advertiser uploads video in a square or horizontal format for feed, we can automatically transform it into the fullscreen vertical format of Stories.

Third, making our ads more relevant and effective.

## David Wehner, CFO

Daily active users on Facebook reached 1.47 billion, up 11% compared to last year, led by growth in India, Indonesia, and the Philippines. This number represents approximately 66% of the 2.23 billion monthly active users

David Wehner, CFO

Thanks Sheryl and good afternoon, everyone.

Let's start with our community metrics.

Daily active users on Facebook reached 1.47 billion, up 11% compared to last year, led by growth in India, Indonesia, and the Philippines. This number represents approximately 66% of the 2.23 billion monthly active users in Q2. MAUs were up 228M or 11% compared to last year. It is worth noting that MAU and DAU in Europe were both down slightly quarter-over-quarter due to the GDPR rollout, consistent with the outlook we gave on the Q1 call.

As Mark mentioned, we are also introducing a family-wide audience metric. 2.5 billion people worldwide used one of our applications in June. This is our best estimate of our de-duplicated audience across Facebook, Instagram, Messenger, and WhatsApp. We believe this number better reflects the size of our community and the fact that many people are using more than one of these services.

Note that for comparison purposes, the Facebook MAU number does count multiple accounts for a single user when such accounts exist, and we estimate those represent approximately 10% of our Facebook MAUs as previously disclosed in the limitation of key metrics section in our SEC filings. The family audience metric only counts a single user in these instances.

Turning now to the financials.

All comparisons are on a year-over-year basis unless otherwise noted.

Q2 total revenue was \$13.2 billion, up 42% or 38% on a constant currency basis. Foreign exchange tailwinds contributed approximately \$370 million of revenue in Q2.

Q2 ad revenue was \$13.0 billion, up 42% or 38% on a constant currency basis.

In terms of ad revenue by region, Europe and Asia Pacific both grew fastest at 47% each and benefitted from foreign exchange tailwinds. I'd note that European ad revenue growth decelerated more quickly than other regions and was impacted primarily by reduced currency tailwinds and, to a lesser extent, the rollout of GDPR.

Mobile ad revenue was \$11.9 billion, up 50% and represents approximately 91% of ad revenue.

In Q2, the average price per ad increased 17% and the number of ad impressions served across our services increased 21%, driven primarily by ads in feed on Instagram and Facebook.

Payments & other fees revenue was \$193 million, up 23%.

Turning now to expenses.

Turning now to the revenue outlook.

Our total revenue growth rate decelerated approximately 7 percentage points in Q2 compared to Q1.

Our total revenue growth rates will continue to decelerate in the second half of 2018, and we expect our revenue growth rates to decline by high single digit percentages from prior quarters sequentially in both Q3 and Q4.

There are several factors contributing to that deceleration. For example, we expect currency to be a slight headwind in the second half vs. the tailwinds we have experienced over the last several quarters.

We plan to grow and promote certain engaging experiences like Stories that currently have lower levels of monetization. We are also giving people who use our services more choices around data privacy which may have an impact on our revenue growth.

## The Questions:

the line of Brian Nowak from Morgan Stanley.

**Brian Nowak:** Thanks for taking my questions; I've got two. Just -- the first one on monetization of Facebook core versus Instagram. Can you talk a little about -- a bit about how you think about monetization levels and the key drivers currently and going forward when we think about ad load, pricing and the importance of ad improvements across the two platforms over the next, call it, year or so?

And the second one on Instagram TV, can you just talk about how you look and think about the core consumer offering, how it varies from Facebook Watch, and philosophically how you're thinking about investing in premium content or sports context across the two products? Thanks.

**David Wehner:** Brian, I'll take the first one. In terms of Facebook versus Instagram, they're obviously both contributing to revenue growth. Instagram is growing more quickly and making an increasing contribution to growth, and we've been pleased with how Instagram is growing. Facebook and Instagram are really one ads ecosystem.

I think from a supply perspective, both now from a feed perspective are at similar ad loads. Instagram has more heavy usage of Stories, so that's an area of continued

growth opportunity because the effective levels of monetization in Stories are lower.



Sheryl Sandberg:

I'll take it. Obviously, we started with ads in Facebook, and that was something we have grown and they continue to grow. The ads have expanded quite nicely to Instagram. And Instagram represents a very healthy part of the growth and we expect that to continue as well.

When you think about things that are further out, I think you then start talking about our messaging apps. We are furthest ahead in Messenger, but it's still very early days. We're quite happy with the consumer engagement with 1.3 billion monthly actives on the platform. And we continue to see a lot of organic connections between businesses and consumers on the messaging platform.

We now have over 8 billion messages sent between people and businesses per month, which includes automated messages. We're being very slow and deliberate with monetization; it's still in early days. But I think we've launched some things that people are excited about and interested in, like Click-to-Messenger ads.

We also had some nice results we can share from clients. One of them recently was Lego. They launched a Messenger bot to help with gift recommendations and they created a Click-to-Messenger ad that linked to a Lego bot, which helped provide product and gift recommendations.

David Wehner: Hey, Mark. It's Dave. On Europe, yes, we don't have any update on trends. We had indicated in the -- in the first quarter that we would expect to see a decline. We're not providing any guidance on MAU and DAU in Europe on this call.

Sheryl Sandberg: In terms of number two, we have an ad model where we're able to use the targeting capabilities for Facebook. But when we put ads into a new surface, we obviously learn and evolve. One example of some of the things that we're excited about, again, are the Click-to-Messenger ads.

That's something we can put in News Feed in Instagram and Messenger, and it both grows the ecosystem and creates a new -- a new opportunity for interaction.

We also have inbox ad where we -- inbox ads where we're enabling advertisers to extend their reach to people in Messenger, which is still really early. And we've -- also in the early days of sponsored messages, which enable businesses to reengage people once a conversation has started.

And so when we think about the format of Messenger, we think about the direct correspondence between a person -- either an existing or a potential client -- or

15

with a business. And we think there are many times in a lifecycle of interacting with a business where that's a very attractive opportunity.

Operator: Your next question comes from the line of John Blackledge from Cowen.

John Blackledge: Great. Thanks. Mark or Sheryl, could you discuss your view about the importance of Instagram as a discovery platform for new and/or emerging brands and merchants? And then over time as these merchants and brands mature, how do you view Instagram's ability to monetize?

And then just a quick one on North American ad revenue, it was a bit lower than we expected in the second quarter; don't know if you guys have any color there? Thank you.

Sheryl Sandberg: On the first, when we think about Instagram, we think we have a great opportunity - 25 million Instagram business profiles, two million advertisers. We're growing quite nicely across brand and DR -- and with a billion active people on the platform. I think Instagram is definitely both a direct response opportunity, but an opportunity for discovery.

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Part of it's the format; the format is so visually appealing and people are telling stories with pictures. We see both anecdotally and in the data that this is a great place for people to become aware of a product in the first place. And we see a lot of small businesses really able to do things on the platform.

I'll share a recent example. We just launched a shopping experience that was just expanded in Q2 to all consumers and an additional 45 countries. DefShop is an e-commerce fashion brand in Germany.

They were an early tester for IG shopping. And what they did in that test is tagged each article of clothing. They had 56 more Web Site visitors and a 64 percent increase in sales for tagged products. And I think a lot of those were discovered and purchased right through that advertising funnel.

How much of it can be video in support of where you want to take the business over the medium- and long-term, versus things that maybe don't necessarily have a revenue component to them, like the security and protection of the ecosystem that the whole team's been talking about since the end of last year? Thanks so much.

**David Wehner:** Yes, Eric. It's going to be a combination of those factors. I would say we're going to continue to invest in core product development and infrastructure.

And so you've seen that already in terms of the ramp that we have in capital expenditures, we're continuing to build out features and functionality for the community across a wide range of different products, whether it be the ad products that Sheryl talked about or IGTV and the like.

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

**Justin Post:** Great. Thank you. This -- the guidance for the deceleration might raise some questions just on Facebook engagement. Just wondering how you're seeing activity within just core Facebook right now? Is it growing at a healthy rate?

And then secondly, you have had a couple of months now with GDPR. Just wondering how you're thinking about how that will impact your ad targeting over the next year? Thank you.

**David Wehner:** Sure, Justin. I'll take that. We're continuing to see good growth in the Facebook ecosystem with 11 percent DAU growth. And obviously, we've got broader family growth as well.

Anthony DiClemente: Thank you. I have two; one for Sheryl and one for Mark.

Sheryl, you just -- in Dave's comments and the comments about the business impact of engagement shifting to stories versus feed products, I just -- if you could spell out for us I guess the real -- the specific reasons why Stories monetization is not as strong as feed today?

And in the context perhaps of what needs to happen in the future for Stories monetization to rebound to, let's say, parity to where feed is today and get through that negative impact?

And then for Mark, I think perhaps Heather was getting at this in her question, but the company's investing so much into owned datacenters; you talked about that I think in your prepared remarks.

Are there ways to improve the return of investment of those investments in datacenters, servers, network infrastructure? And what I'm thinking is in order to perhaps service third parties to maybe just improve those returns in the way that other tech and Internet companies have in terms of investments in infrastructure? Thank you.

Sheryl Sandberg: On Stories, we've seen great progress with Stories as a format for people to share on our platform. We have 400 million people sharing with Instagram Stories, 450 million with WhatsApp status; Facebook is newer, but we're seeing good progress there.

The question is, will this monetize at the same rate as News Feed? And we honestly don't know; we'll have to see what happens. There are good reasons to be very optimistic about the monetization.

The opportunity -- full-screen, authentic, very engaging, different formats than Feed -- gives us an opportunity to grow. We also don't have all of our advertisers yet creating Story ads. Obviously as more and more advertisers come in and do that, the more and the better ads we'll have.

20

I think getting that ramp will take a while because Stories is a new format. And we definitely see that it takes a while for advertisers to adopt new formats.

I think one of the other things we feel good about over the long run -- not really in the short run -- is that since we have so many different places where you have Stories formats in Instagram and WhatsApp and Facebook, as volume increases of the opportunity, advertisers get more interested.

But we won't know for a while if it's going to monetize at the same rate. We do feel very good about a new and very engaging opportunity for ads.



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

Brent Thill: Thanks. Dave, I want to go back to the magnitude of the deceleration. I think many investors are having a hard time reconciling that type of deceleration, considering how good the advertiser feedback is on your platform. And I realize you've outlined FX and Stories and the other factors.

But is there something that you're hearing now from advertisers that are -- is giving you more confidence that they're seeing something different about what we're all hearing right now? It just seems like the magnitude is beyond anything we've seen, especially across the number of tech things we all cover.

David Wehner: Yes, Brent, I'll take that, and if Sheryl wants to add color, she should step in as well. The -- this is a move we consistently have seen over the last eight quarters -- constant currency deceleration.

There's a continuation of this trend. I don't think there's anything beyond that and the factors that I outlined. I would note, we've been benefiting from continued growth across Instagram. Instagram ad load in feed is at the same level as Facebook, so about the -- that's certainly been helpful in our -- in our recent quarters.

22



I think when you look at the factors going forward, I would -- I would say, we've got the currency impact, we've got some of the impacts around privacy and the like, but we continue to get good advertiser feedback on ROI.

We continue to believe we're delivering great ROI for advertisers. I don't -- I don't think there's anything from the advertiser perspective that's necessarily playing out differently than expectations. Sheryl can add any color there.

Sheryl Sandberg: Yes, I'd add there. I mean, even at decreasing growth rates, we are still growing and predicting growth at very healthy rates, and that's based on returning for advertisers.

We're very focused on helping advertisers meet their ultimate goals, looking at their ROI, looking at the return they get on ringing the cash register, whether that cash register rings online or offline. And we hear from them and we continue to see in our results that we continue to deliver strong results.

We have a lot of opportunity ahead of us. We're going to continue to invest in that opportunity. And what we're hearing from advertisers all over the world is that they want to continue to grow and invest with us as well.

# WhatsApp Messenger

Version 2.18.217



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**LICENSES**

1.5. "Payment Order" means an unconditional instruction issued by the User through the WhatsApp Platform to effect a fund transfer for a certain sum of money expressed in Indian rupees, to the designated account of a designated beneficiary by debiting the Account(s) of the User.

1.6. "PSP (Payment Service Provider)" refers to banks which are allowed to acquire Users and provide payment services to Users and entities.

1.7. "UPI" refers to the Unified Payments Interface Service offered by NPCI in collaboration with its member banks.

1.8. "WhatsApp" means WhatsApp Inc., a Delaware, United States, company with offices at 1601 Willow Road, Menlo Park, CA 94025. It provides smartphone users with certain services via their phone's Internet connection, including sending and receiving messages, calls, photos, videos, documents and voice messages.

- **Your Connections.** To help you organize how you communicate with others, we may create a favorites list of your contacts for you, and you can create, join, or get added to groups and broadcast lists, and such groups and lists get associated with your account information.
- **Customer Support.** You may provide us with information related to your use of our Services, including copies of your messages, and how to contact you so we can provide you customer support. For example, you may send us an email with information relating to our app performance or other issues.

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- **Usage and Log Information.** We collect service-related, diagnostic, and performance information. This includes information about your activity (such as how you use our Services, how you interact with others using our Services, and the like), log files, and diagnostic, crash, website, and performance logs and reports.



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We joined the [Facebook family of companies](#) in 2014. As part of the Facebook family of companies, WhatsApp receives information from, and shares information with, this family of companies. We may use the information we receive from them, and they may use the information we share with them, to help operate, provide, improve, understand, customize, support, and market our Services and their offerings. This includes helping improve infrastructure and delivery systems, understanding how our Services or theirs are used, securing systems, and fighting spam, abuse, or infringement activities. Facebook and the other companies in the Facebook family also may use information from us to improve your experiences within their services such as making product suggestions (for example, of friends or connections, or of interesting content) and showing relevant offers and ads. However, your WhatsApp messages will not be shared onto Facebook for others to see. In fact, Facebook will not use your WhatsApp messages for any purpose other than to assist us in operating and providing our Services.

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As explained in more detail in our Privacy Policy, we do not retain our users' messages in the ordinary course of providing our Services. We do, however, host our users' account information, including our users' profile picture, profile name, or status message, if they decide to include them as part of their account information.

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1601 Willow Road  
Menlo Park, California 94025  
United States of America  
[ip@whatsapp.com](mailto:ip@whatsapp.com)



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Menlo Park, California 94025  
United States of America  
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**No Class Actions, Class Arbitrations, or Representative Actions for Users Located in the United States or Canada.** We and you each agree that if you are a WhatsApp user located in the United States or Canada, each of we and you may bring Disputes against the other only on its or your own behalf, and not on behalf of any other person or entity, or any class of people. We and you each agree not to participate in a class action, a class-wide arbitration, Disputes brought in a private attorney general or representative capacity, or consolidated Disputes involving any other person or entity in connection with any Dispute.

Small Claims Court. As an alternative to arbitration, if permitted by your local “small claims” court’s rules, you may bring your Dispute in your local “small claims” court, as long as the matter advances on an individual (non-class) basis.

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