

January 27th, 2016

**Facebook Q4-15 and Full Year 2015 Earnings Conference Call**

**Operator:**

Good afternoon. My name is Chris and I will be your conference operator today. At this time I would like to welcome everyone to the Facebook Fourth Quarter and Full Year 2015 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.

**Deborah Crawford, VP Investor Relations:**

Thank you. Good afternoon and welcome to Facebook's fourth quarter and full year 2015 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, our annual report on form 10-K and our most recent 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. Overall, Q4 was a strong quarter and a great end to the year. More than 1.59 billion people now use Facebook each month and 1.04 billion every day. Our growth of nearly 200 million people monthly and 148 million people daily this year. More than 1.44 billion people use Facebook on mobile devices.

When it comes to our business, we're also pleased with our continued growth. Total revenue grew by 52 percent year-over-year to more than \$5.8 billion, and advertising revenue grew by 57 percent to reach more than \$5.6 billion. But it's also important to consider not just our business results but how we're improving the lives of people and communities around the world.

Next week, Facebook celebrates its twelfth birthday. And as I think about our progress, and where we go from here, I've reflected on the diverse global moments that Facebook was involved in - in 2015. More than 950 million people received a notification that a friend or loved one was safe in a crisis. Millions of people supported the people of Nepal after the earthquake, and the people of France after the Paris attacks. More than 8 million people used 35,000 Groups and Pages on Facebook to support

refugees. And people from all over the world connected around moments from Star Wars to the US presidential election, from the Indian Super League to the Cricket World Cup.

Seeing our global community connecting in all these ways shows the opportunities ahead as we connect the world, but also the challenges. Even as the world has tended towards greater openness over time, in many communities we also see greater fear over what a connected world and more technological progress means for them. Addressing these concerns is essential for making progress on our mission, and we're going to keep working to give people as much of a voice as we can, and advance the benefits of connectivity and bringing the world together. In 2016 and beyond, we're going to continue doing that by serving our community, working to bring connectivity to billions of people who are not yet connected, and building new technologies that give people more ways to express themselves.

Now, let's talk about how we've continued working to do that and let's start with how we're improving our existing products and businesses. Our strategy here is to deliver better, more engaging experiences for our community, and to give people better tools for sharing different types of content with different groups of people that they care about.

Video is an important part of the Facebook experience, and continuing to invest here is important for allowing people to share and consume some of the most engaging content. We've continued to make progress and now 100 million hours of video are watched daily on Facebook. We've been testing new experiences like suggested videos, which enables people to discover more videos they might be interested in. We're also exploring ways to give people a dedicated place on Facebook for when they just want to watch videos.

With other parts of our core we've continued to focus on improving the performance and quality of our products to better serve different communities on Facebook and these efforts are paying off, with growth and engagement for different products reaching impressive scale. Now more than 500 million people use Events each month, and more than 123 million events were created on Facebook in 2015. For the first time more than 1 billion people used Groups in a single month on Facebook. It's inspiring to see all the different communities using Groups – from the small family and classroom and church groups, to the large ones, like the running challenge group that I started a few weeks ago that now has about 100,000 members. To serve our entire global community, we're optimizing our services for people in developing countries. We've improved Facebook Lite to offer a better experience in low bandwidth environments, improving load times and adding features like video. More than 80 million people now use Facebook Lite as of December.

And when it comes to serving businesses, we've continued to focus on creating better ads and tools for our more than 2.5 million active advertisers. More than 50 million small businesses now use Pages on Facebook and people post more than 2.5 billion comments on these pages each month. This is a good example of how the strength and engagement of our community is making Facebook more valuable for businesses every day. And Sheryl's going to talk more about this in a minute.

Next, let's talk about how we're building our next generation of services. With Instagram, we've continued to drive this shift towards more visual content online. The community continues to grow, and back in September we announced a new milestone of 400 million monthly actives. Over the last year, as the community has grown we've focused on building engaging new experiences for the community, including by improving search and by introducing trending content. We've also worked to develop new experiences to give people more options for creating and sharing different types of content. In March

we launched the Layout app, allowing people to easily combine images. And in October, the team also launched Boomerang, an app for making looping videos which reached #1 in the App Store in more than 70 countries. We also introduced a new video channel on Instagram for people to watch moments from big events like New Year's or the College Football Championship as they happen.

With Messenger and WhatsApp we've continued to make progress with building these into valuable communications services for everyone in the world. More than 800 million people now use Messenger monthly, and in 2015 we grew that number by almost a quarter of a billion, while also increasing engagement. We continued to give people new ways to communicate by introducing video calling, and new options for customizing conversations with fun things like colors and emoji, and by using apps through the Messenger Platform. We also worked to expand Messenger's utility by adding payments, a new way to connect with businesses, and by testing M – a digital assistant powered by AI. And this quarter we also began testing a transportation platform, allowing people to request an Uber ride through Messenger. More services will be coming to the platform soon, including airlines.

WhatsApp ended the year with nearly 1 billion monthly actives. As WhatsApp has grown, we've worked to keep it fast, simple and reliable, and we've seen many communities come to depend on this as their main communications service. To serve these communities well, this month we announced that WhatsApp will now be free to everyone and we'll no longer charge the subscription fees that many people were charged after their first year. We think this is an important step towards creating an even more ubiquitous product, without affecting our plans for building WhatsApp into an important business in the coming years. Later this year we'll be testing new ways for people to use WhatsApp to communicate with businesses and organizations that they want to hear from.

Finally, let's talk about our work on new breakthrough technologies that can help connect more people to the internet and create transformative new experiences. In 2015 we made significant progress on our efforts to connect more people to the internet. We launched the first trials of Express Wi-Fi, a product designed to help entrepreneurs bring their communities online. We launched Free Basics in 33 more countries and we've now connected 19 million more people. This year, we expect to hold our first test flight of Aquila, our first solar-powered aircraft designed to beam internet into communities from the sky. And we're also working on new advances in lasers that can transfer large amounts of data faster and more efficiently than anything today

With our work in AI, we continue to make progress towards a new generation of computers that can see and understand. Over the last year we've published dozens of research papers including some of the leading work on image recognition and language understanding. To drive the entire AI community forward we've also open sourced software and a lot of new AI hardware platforms. Achieving the scientific breakthroughs to build AI that makes a dramatic, visible difference in people's lives – it's going to take a long time, but already we're seeing opportunities to serve our community. We recently built a prototype AI system that combines language and vision comprehension so you can show it an image that it's never seen before and it can answer questions about that image. And we've even used AI to help blind people experience their friends' photos by describing the scenes.

With virtual reality, we've reached some important milestones. The Samsung Gear VR shipped over the holidays with our Oculus software and we're pleased with the initial reaction. This month we also opened pre-orders for Oculus headsets. This will be the world's best VR experience, and we're excited to begin shipping to people in more than 20 countries before the end of March. More than 100 VR games and experiences are coming to Oculus this year, and later this year we'll also be shipping our Oculus

Touch controllers to get your hands into virtual reality. These controllers will enhance the VR experience and allow people to communicate more naturally in VR through intuitive hand movements and gestures. This Oculus launch is shaping up to be a big moment for the gaming community, but over the long term VR has the potential to change the way we live, work and communicate as well. The launch is an important step towards the future, and we're really looking forward to seeing how people use it.

So that's how we've continued to make progress on our strategy. It's been a strong quarter and we ended 2015 with a great foundation for our efforts going into 2016. Our strategy is working and we have many more opportunities ahead. So we're going to continue investing to deliver more great results over the long-term.

On a more personal note over the last few months, with a new addition in my family, I've been reflecting a lot on the legacy that we want to pass on to the next generation. I'm excited about our progress and the chance to build something great for the future. If we continue to focus on solving the fundamental challenges facing the world, and bringing the world closer together, we can leave a better world for the whole next generation. That's what I think about every day as we continue building Facebook, and I want to thank everyone in our community, our employees, our shareholders, our partners who are helping us on this journey.

Thank you – and now here's Sheryl.

**Sheryl Sandberg, COO:**

Thanks Mark and hi everyone. We had a terrific fourth quarter, capping off a great 2015. Q4 ad revenue grew 57%, or 66% on a constant currency basis. Mobile ad revenue reached \$4.5 billion, up 81% year-over-year, and is now 80% of total ad revenue. Facebook and Instagram drive business results for our partners – helping move products off shelves online and off. As a result, we're growing spend from our current clients and attracting new marketers to our platform.

We saw strong growth across all verticals, marketer segments, and regions. We're also pleased with the growth we're seeing in emerging markets and countries like China, where businesses are advertising on Facebook and Instagram to reach people internationally.

We continue to make progress on our three priorities – capitalizing on the shift to mobile, growing the number of marketers using our ad products, and making our ads more relevant and effective. First – capitalizing on the shift to mobile. Heading into 2016 it's clear that consumers have shifted to mobile – and businesses know they need to catch up. Marketers now realize that if they want to reach their customers where they are – mobile is essential. Our conversations with clients have shifted from if they should market on mobile to how.

With over 1.44 billion people using Facebook on mobile monthly and over 400 million monthly actives on Instagram, Facebook and Instagram have become the two most important mobile advertising platforms. We provide a creative canvas powered by technology – a unique combination of art and science – that marketers can use to deliver great creative with the highest-quality targeting at unparalleled scale.

The 2015 holiday season was a defining moment for mobile marketing, and demonstrated the power of our mobile platform. According to ComScore, total US consumer spending on mobile in November and December was up 59% year over year. This holiday season, marketers turned to mobile more than ever

before. To reach a large global audience for the launch of Halo 5, Microsoft Xbox used video optimized for Facebook and Instagram. Working with their agencies Empower Media Team from Dentsu Aegis Network, Ayzenberg Group, and twofifteenmccann, they understood that people watch video differently in mobile news feed than on TV, so they created videos to capture audience attention in the first 3 seconds, even without sound. They drove over 380 million impressions and 49 million video views in key markets and increased purchase intent by 10 points in the US.

Our second priority is growing the number of marketers using our ad products. Last quarter we announced that we had over 2.5 million active advertisers, and since then our growth has remained strong. This represents a small fraction of the over 50 million small businesses now actively using Pages, so we see a huge opportunity to continue to grow the number of Facebook advertisers going forward. We're also very pleased with the growth in advertiser adoption of Instagram and the positive results advertisers are seeing from their investments. 98 of the top 100 advertisers on Facebook also advertised on Instagram in Q4.

Our third priority is improving the relevance and effectiveness of our ads. We shipped a lot of new ad products this past year. These products help deliver personalized marketing at scale and drive business for our clients. Leading up to Black Friday, Shop Direct, the UK's second largest online retailer, teased upcoming sales with a cinemagraph video to build awareness. They then retargeted people who saw the video with one-day only deals. On Black Friday, they used our Carousel and DPA ads to promote products people had shown interest in. They saw a 20 times return on ad spend from this campaign, helping them achieve their biggest Black Friday and their most successful sales day ever.

To share just a few other product examples: in emerging markets we launched Slideshow, a video-like ad experience that works with lower connection speeds and feature phones. We introduced local awareness ads globally to help brick-and-mortar businesses reach people near their stores and started testing Canvas ads to help marketers showcase their products in a more immersive way. We continue to invest in ad tech and are especially pleased with the growth of Audience Network.

Measurement also remains a critical area of focus. Our measurement tools like Conversion Lift and the Facebook Pixel prove to marketers that we're driving business results and help make our ads more relevant. This year we saw more advertisers shift from proxy metrics, like clicks, to business results, like digital and in-store sales. Our results show that the investments we've made over the past few years are paying off, and we see a lot of exciting opportunities ahead. We know we still have a lot of hard work to do and heading into the new year we will remain very focused on our top three priorities.

I want to take this opportunity to thank our clients around the world for their partnership – your investment and feedback is critical to making our products better. I also really want to thank the global Facebook teams for your extraordinary dedication to our partners' success. Your hard work and execution is critical to helping us fulfill our mission. Thanks everyone, and now here's Dave.

**David Wehner, CFO:**

Thanks Sheryl and good afternoon everyone. Q4 was a strong quarter and wrapped up a phenomenal year for Facebook. Full year 2015 revenue was \$17.9 billion up 44% year-over-year, or 53% on a constant currency basis. In 2015, we generated over \$6 billion in free cash flow including \$2.1 billion in Q4, while continuing to fund important investments for the future growth of the business.

The strong growth and engagement of our community was a consistent theme throughout 2015 and that continued in the fourth quarter. In December, 1.04 billion people used Facebook on an average day, an increase of 17% compared to last year. This daily number represented 65% of the 1.59 billion people who visited Facebook during the month of December. Mobile continued to drive the growth of our community. In December, 1.44 billion people accessed Facebook on mobile devices, an increase of 21% compared to last year. And 90% of the people who used Facebook on both a monthly and daily basis accessed us via mobile devices.

Now turning to the financials. All of our comparisons are on a year-over-year basis unless otherwise noted. Additionally, our non-GAAP measures exclude stock-based compensation and the amortization of intangibles. In Q4, total revenue was \$5.8 billion, up 52% or 60% on a constant currency basis. Q4 ad revenue was \$5.6 billion, up over \$2 billion from last year. Year-over-year growth was 57% or 66% on a constant currency basis.

The strengthening of the US dollar continued to have an unfavorable impact on our revenue in the fourth quarter. Had exchange rates remained constant with Q4 2014 levels, our total revenue would have been approximately \$320 million higher. US & Canada and Asia-Pacific continued to be our two strongest regions with ad revenue growth of 64% and 57%, respectively. Our Rest of World and Europe regions grew at 53% and 45%, respectively, as they were more heavily impacted by currency headwinds.

Mobile ad revenue was \$4.5 billion, up 81% from last year, and represented 80% of our advertising revenue. For perspective, three years ago the mobile percentage was just over 20%. Q4 capped off a remarkably successful year for our mobile advertising business where we were able to combine strong growth in ad inventory supply with strong growth in advertiser demand. On the supply side, we grew the number of people using Facebook on mobile, time spent, and ad load. Our ongoing focus on ad quality and relevance enabled us to deliver a better overall mobile ads experience for our users while increasing the number of ads that they see. In Q4, we also benefitted to a lesser extent from increases in ad inventory from Instagram and the Audience Network.

On the demand side, we believe our efforts on targeting and measurement solutions enabled marketers to achieve better business results at better values. This helped us drive strong growth from a broad array of advertisers including: direct response and brand advertisers, large companies and SMBs, and both existing and new advertisers.

Turning now to the overall price-volume metrics. In Q4, the average price per ad increased 21%, while total ad impressions increased 29% on a year over year basis. It is worth noting that this was the first quarter since Q3 2013 that total ad impressions increased on a year over year basis. This was driven by an increase in mobile ad impressions and was partially offset by a decline in ad impressions delivered on personal computers consistent with the ongoing declines in PC usage. The reported increase in price is being driven by the continued mix shift towards mobile which contains higher-priced News Feed ads rather than the mix we have on PCs of both News Feed ads and lower-priced right-hand column ads. Total Payments and Other Fees revenue was \$204 million, down 21% compared to last year. The decline was driven by a reduction in Payments revenue related to games played on personal computers.

Turning now to expenses. Q4 total GAAP expenses were \$3.3 billion, up 21%, and non-GAAP expenses were \$2.3 billion, up 42%. Our year-over-year GAAP expense growth rate slowed this quarter as we lapped the introduction of stock-based compensation charges associated with the WhatsApp

transaction. Non-GAAP expenses were driven by increases in headcount related costs, cost of revenue and marketing expenses. We ended the year with nearly 12,700 employees, up 38% compared to last year. Our GAAP operating income was approximately \$2.6 billion, representing a 44% operating margin. Our non-GAAP operating income was \$3.5 billion, representing a 60% operating margin. Our Q4 GAAP and non-GAAP tax rates were 39% and 36%, respectively. Our Q4 GAAP net income was approximately \$1.6 billion or \$0.54 per share, and our non-GAAP net income was \$2.3 billion or \$0.79 per share. In the full year 2015, capital expenditures were \$2.5 billion as we continued to invest in servers, data centers, network infrastructure, and office facilities to support the rapid growth of the business. We ended the year with over \$18.4 billion in cash and investments.

Turning now to the outlook. First some color on revenue. We expect the factors that drove the strong growth of our advertising business in 2015 will continue into 2016. However, we expect to continue to face foreign exchange headwinds especially early in the year, as we will be lapping periods where the dollar was relatively weaker than it is today. More broadly the overall macro environment introduces a level of uncertainty around global growth and exchange rates that could impact our business in 2016. And we do expect to face tougher comparables as the year progresses given the remarkably strong advertising performance in 2015.

Turning now to expense guidance. 2016 will be another significant investment year for Facebook. In 2015, we continued investing heavily in the core. At the same time we doubled our investment levels in our next-generation services, which includes WhatsApp, Instagram and Messenger. And we tripled our investment levels in our long-term areas of focus, which includes our connectivity efforts, Oculus and our AI investments. We will continue investing significantly in all of these areas in 2016. We expect the year-over-year growth rate for full-year 2016 total GAAP expenses to be approximately 30-40%, and for full-year 2016 total non-GAAP expenses to be approximately 45-55%. Note these ranges represent total operating expenses, including cost of revenue. These ranges also include the cost of revenue impact of the expected shipments of Oculus Rift, though we expect that impact to be immaterial to our overall total expenses for the year.

We anticipate our 2016 capital expenditures will be in the range of \$4.0-4.5 billion. We recently announced we will begin building a new data center in Clonee Ireland and that project is on top of the new data center being built in Fort Worth, Texas. We expect our 2016 stock-based compensation to be in the range of \$3.1-3.3 billion, approximately half of which is related to our prior acquisitions, most notably WhatsApp. We expect 2016 amortization expenses to be approximately \$700-800 million. And lastly, we anticipate that our Q1 and full-year 2016 GAAP and non-GAAP tax rates to be in the low 30s on a percentage basis, down from our 2015 rates. We expect that our tax rates will decline further over time and resemble those of our global peers over the next several years. In addition, in 2016 we expect for the first time to pay a significant amount of U.S. income tax on a cash basis.

To conclude, 2015 was an outstanding year for Facebook. Our performance reflects the strong growth and engagement of our community, the momentum we're seeing in our ads business, and the significant progress we're making on our mission to connect the world.

With that, operator, we would like to open up the call for questions.

## **Q&A**

### **Operator:**

Thank you. And we will now open the line for the 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 Douglas Anmuth from JPMorgan. Please go ahead.

### **Douglas Anmuth:**

Thank you. First, Mark, on Messenger and WhatsApp, can you talk more about the takeaway on the new platform now that it's been open nearly a year to developers and how that's informed your view on what you're going to do with WhatsApp going forward.

Then secondly, perhaps Dave or Sheryl, on the ad load, a few years ago you had talked about ad load at mid single-digit levels and then more recently is up significantly since then. Do you still feel like there is still significant room to increase ad load here and how do you think about the theoretical ceiling there? Thanks.

### **Dave Wehner:**

I can start with, I can start with the ad load question, Doug. So ad load is definitely up significantly from where we were a couple of years ago. And as I mentioned, it's one of the factors driving an increase in inventory. Really, one thing to kind of think about here is that improving the quality and the relevance of the ads has enabled us to show more of them, and without harming the experience.

And our focus really remains on the experience. So we'll continue to monitor engagement and sentiment very carefully. I mentioned that we expect the factors that drove the performance in 2015 to continue to, continue to drive the performance in 2016, so yes, I think that's the color I can give on ad load.

### **Mark Zuckerberg:**

On Messenger, the platform efforts in 2015 focused on two things. One was expanding the different types of content that people can share in Messenger. And that diversity is going really well. And we see continued increase in video sharing and photos and stickers and a lot of stuff that you would just call fun, but that people really enjoy as different ways to express themselves.

But in terms of the business, the more important piece is how people can interact with businesses through Messenger. And we started some early small tests around F8 last year, where with some eCommerce services made it so that people who were buying things could follow up with the business and get customer support and buy more things and we went through this process of integrating that and making sure that it integrated with all of these systems well.

And I think everyone is really happy with that so far. We started off pretty slowly, but that's going to be some of the basis for how we look to make Messenger a business going forward. And we're happy with the initial results. There's obviously a lot more there that we need to do and we'll have more to talk about this year and beyond.



**Operator:**

The next question is from John Blackledge with Cowen & Company. Your line is open.

**John Blackledge:**

Great, thanks. So it was a phenomenal quarter and year for Facebook. And given we're about a month into 2016, there's a lot of discussion around the global macro headwinds.

Just wondering how the business is trending thus far in the quarter, maybe by market, U.S., Europe, Asia-Pac and rest of world. And generally just how Facebook is positioned if the global macro environment softens a bit. Thank you.

**Dave Wehner:**

Yeah John, it's Dave. Just on that question, we're not commenting specifically on Q1. We, we didn't see anything in Q4 that indicated broad-based macro weakness, beyond, of course, the impact that FX was having, which was pretty significant.

I mean, we saw the impact in places like Brazil where you've got a currency headwind of over 30 percent. So you're certainly seeing that impact it. And obviously, those sort of global macroeconomic and currency factors you know will continue to impact us.

We're obviously benefiting from a strong secular shift to usage of mobile and we feel we're very well positioned in that. We're seeing more and more advertisers move to mobile.

They realize that it's no longer a question of whether they need to be on mobile, but it's really how they are going to be on mobile. And we think we've got the best solution for that and we're investing to make it even better. So I think from a secular trend point of view, we're very well positioned, but obviously we'll continue to monitor the macro conditions and currency.

**Operator:**

The next question is from Eric Sheridan with UBS. Your line is open.

**Eric Sheridan:**

Thanks for taking the question. Maybe just asking for more color on Instagram. It's obviously still very early days on Instagram, but what are you seeing in terms of user engagement as you continue to move ad load up on the product?

What advertiser adoption of the product is? I know you gave us a little bit of color during the prepared comments. And also pricing on the environment inside the platform as you continue to roll out deeper with the advertising products. Thank you so much.

**Sheryl Sandberg:**

When we introduce ads into feed and continue to increase the ad load, we monitor really carefully. We're looking at user engagement on the platform. We also look at the quality of ads. And our basic belief is that if we have high quality ads, those create a good consumer experience and we can look at what consumers are doing because we can understand how actively engaged they are on the platform.

For Instagram, we don't break out revenue. Instagram, and we're pleased with the growth on Instagram, and as I mentioned, 98 of our top 100 advertisers on Facebook are now advertising on

Instagram. It's also the case that Facebook grew remarkably – had remarkably strong growth as well. So we're seeing strong growth across those platforms.

I think what's exciting about both platforms is that they combine the art and the science of both a creative canvas that marketers are excited about and targeting. So to share another example from a holiday, Shutterfly did a Facebook and Instagram, both a brand and direct response holiday campaign on mobile. And what they did was just beautiful pictures, but also targeting very specifically to women with specific interests, such as things like weddings and babies.

And they saw a 6.4 times return on ad spend. We think that's what's possible when you combine the creative canvas we have, using the technology and using the platform that we've created.

**Operator:**

The next question is from Heather Bellini with Goldman Sachs. Your line is open.

**Heather Bellini:**

I just had two quick questions. One, Sheryl, I just wanted to follow up on what you said about Facebook and Instagram and the overlap in the advertisers. And I was wondering if you could share with us you know how you feel those advertisers view it.

Do they view it as an incremental platform or there's been some question about whether or not some advertisers might take their spending and just move it over to Instagram? I'm wondering if you see incremental spending as a result of opening up both platforms.

And then the second question would just be to Mark, just was wondering, I know you mentioned Oculus and the preorders. I was just wondering if you could give us your take on whether or not you're happy with the initial launch of Oculus preorders? And also, we obviously all know the big gaming impact.

I'm just wondering from your perspective, as you look out, what industries do you think where this could be the most disruptive, outside of gaming? Thank you.

**Mark Zuckerberg:**

I'll take the Oculus one first. Yes, I am happy. I don't show much joy, but I'm happy. Sorry. It's going to be gaming for the beginning. I mean, that's the initial market. There are about – I think it's around 250 million people who have Xboxs, PlayStations, or Wiis. That's the initial market of folks who we think are going to be most interested in the early VR experiences, especially at some of the higher price points.

But overall, I mean, the reason why we're interested in this is the social company is that we think this is going to be a new way that people interact, right? And if you've tried out the toy box demo with the hands, Oculus Touch, what you see is when you're in virtual reality with another person and you can interact with the environment and use your hands, you can – it's not just about where you are and the fact that you can instantaneously teleport to another place.

You can interact with people in all of these different ways that would be very difficult in the – the rest of the world. So we're very excited about that. That's going to be a big area of investment for us, and is ultimately, I think, going to change the way we communicate and live and work, in addition to how we play games. But I think we're off to a good start.

**Sheryl Sandberg:**

On the Instagram question, certainly in the short run some of the spend is incremental and some of it isn't. Some of our clients approach this where they have a social budget or a Facebook budget and some of that moves to Instagram. And some people, it's incremental spend.

In the medium to long run, however, we believe that we are really well positioned to take share from other platforms out there. We believe both Facebook and Instagram have this combination of an ability to do great creative with the best targeting and the most sophisticated measurement, which shows businesses how we help them move products off shelves.

And we want, and we tell our clients we want to be the best dollar, the best Euro, the best pound and the best minute you spend. And we really encourage them to measure their ROI and compare us to other platforms. We think that comparison bodes very well for our growth.

We also think the continued consumer shift to mobile devices bodes well for our growth as well. That said, we have to continue to execute. We know this won't be easy. We have to continue to build the right products. We have to continue to measure all the way through from seeing an ad impression to sale. So it's up to us to stay focused in the coming year and years.

**Operator:**

The next question is from Ben Schachter with MacQuarie. Your line is open.

**Ben Schachter:**

Congratulations on a great year. You've had a lot of success with stand-alone apps. Should we expect to see you launching more such apps? And could a stand-alone video app be part of that, for particularly who want to just watch video.

On virtual reality, another question. Can you just discuss the supply constraints in terms of how many units you can ship per month? And should we expect those shipments to accelerate into the holiday? Then also related to that, how are you going to work with retailers to show consumers the power of Oculus in-store and in person? Thanks.

**Mark Zuckerberg:**

So on the apps question you know the ones that have done the best are things that augment the core Facebook functionality for large subsets of the community. So for example, we have this pages manager app. You know there are 50 million businesses that have pages on Facebook, and while that is not a huge number compared to the size of the overall community of people, it's a very large number of people and businesses.

And giving a focused experience for the person who wants to run their business through Facebook and be communicating with their customers all day long, that's just proving to be an incredibly engaging experience that drives content into the system and is good overall.

We have introduced a number of things like that for public figures, for groups. Messenger has probably been the most successful as something that's connected to the Facebook experience that now has more than 800 million people using it. So I do think there are additional opportunities for this. And we'll continue looking at them.

**Dave Wehner:**

So Ben, just following up on VR and supply constraints, so we have two products that you've got gear VR and Samsung is really handling all of that from a hardware perspective, and obviously they are well prepared on that front. With Rift, it's really you know it's early in the evolution of VR.

It's early to be talking about large volume, so at this point I don't think we're giving a lot of color around supply chain and that sort of thing. It's not going to be material to our financials this year.

**Operator:**

The next question is from Brian Nowak with Morgan Stanley. Your line is open.

**Brian Nowak:**

Thanks for taking my questions. I have two. The first one is to go back to some of the core Facebook advertising success. I wonder if you could talk about some of the Facebook video ad learnings and kind of positive encounters and hurdles that you still encounter that could be holding back advertisers from moving further video budgets out of the platform.

And then the second one, we always see this gap between Asia and rest of world monetization versus North America and Europe. I was wondering if we could kind of talk through some strategies and qualitative drivers you see over the next couple of years that are going to increase the overall Asia and rest of world monetization even further. Thanks.

**Sheryl Sandberg:**

I think our approach in increasing monetization around the world is really the same. We need to build really compelling ad products with great formats that let marketers be creative and be convincing.

I'll share an example of something we did for an emerging market.

I mentioned briefly in my remarks Slideshow, the slide show product is enabled a video-like experience with phones with lower connection speeds than feature phones by a series of photos. So Coca-Cola used that in Kenya and Nigeria. They took screen shots of a video ad they had produced for other markets. They uploaded them with texts. And they reached 2 million people with a ten point lift in ad awareness.

So the way we need to drive sales around the world is by understanding markets, launching things like Click To Missed call ads in India and making sure our products work for markets, but also being able to connect to both advertising metrics and business metrics around the world.

Video ads are important on our platform and the most important thing that's growing well there is consumer engagement with videos growing. We have 500 million people watching video a day. And the fact that so much video is being consumed on our platform gives us room for an ads business to grow because we want the formats to match.

Marketers also really love video, and it's a really compelling way to reach people. And videos contributing to our growth, it's important to note that it's not just large brand advertisers that are doing video, but all of our market segments.

Direct response, SMBs who have uploaded 1.5 million videos, and that's both organic and paid in the last month, and developers. The video ad spend is not all incremental, of course, because every time we put an ad in new feed, if it's a video ad, it's taking the place of an ad with another format. In terms of learnings, one of the most important learnings we have is that video formats are different on Facebook.

There are certainly people that are watching the whole 30-second video ad with sound, but there are some people that are doing less, they are watching shorter formats and they are watching with sound.

And one of the challenges we have in the market is convincing marketers and agencies and people that make the video to experiment with different formats. The good news is that we're getting great results, like the Halo 5 example I shared in my remarks, that when people are willing to experiment, this is a pretty unique, creative canvas.

You can do short form with sound off, you can do longer form with sound on, and everything in between and our ability to persuade marketers to experiment is going to be a major driver of how much we can do here.

**Operator:**

The next question is from Justin Post with Bank of America Merrill Lynch. Your line is open.

**Justin Post:**

Thanks. I'll ask a couple of longer-term questions. First, I know a year ago you gave us a usage update on time spent. Wondering if video or any other products are having a big impact on usage and if you can give us any metrics there?

And then maybe one for Sheryl, we have you at 8 percent of all media time spent. Just wondering if you think Facebook could monetize better than other forms of media based on time spent or maybe a little bit below.

And then maybe one for Dave. 60 percent margins last quarter, obviously very strong. Just wondering what you think about the long-term and any comments on long-term margins. Thank you.

**Sheryl Sandberg:**

In terms of monetizing time spent, it's certainly the case that consumers have shifted to mobile and businesses need to catch up. The exact percentage we can monetize at, we'll see. But we certainly think that we will continue to benefit from the consumer shift to mobile because businesses are behind.

If you ask even our largest clients, our largest clients if they drew a pie chart of where consumers spend their time and money and where they spend their time and money, we are still underindexed.

That said, I'll say it again, we have a lot of hard work to do. We really need to prove to clients, particularly as they scale and we become a bigger part of their spend, that we're driving results.

Other platforms, other forms of advertising, like TV and other, have very established metrics that people have believed for a very long time. We think our targeting can be better than any other platform. We also believe our ability to measure results can be deeper. But it's up to us to prove that and to prove that client-to-client.

It's also worth noting that we work really well with TV. It's not always a choice of TV or Facebook, but often, we can be a complement. We've done a bunch of work with Nielsen to measure what happens when marketers do big TV campaigns and do campaigns that are broadly, broadly targeted on Facebook. And we are able to increase the reach and increase brand favorability. So for the most part, when people are doing big campaigns, they are doing them across multiple platforms and we think that will continue.

**Dave Wehner:**

Justin, on time spent, there's no question that video is helping us on time spent and engagement. We're not – you won't have any specific stats other than the hours per day – sorry, time spent per day that Mark mentioned on video. So no updates on stats there other than that.

In terms of our long-term margins, we're not managing the business to a specific margin target in any year. We still think we're early in investing in the business. And we're really investing in new areas today where we see a long-term opportunity for revenue growth. That being said, there – we do think there's a lot of margin potential in this business, given the focus on advertising. But no target at this point.

**Operator:**

The next question is from Anthony DiClemente with Nomura. Your line is open.

**Anthony DiClemente:**

Thanks for the questions, and good afternoon. Just for Mark or Sheryl, wondering what is your strategy for professional video content going forward? You talked a lot about video, branding more professional media content to Facebook accelerate video engagement and adoption.

And then for Dave, just kind of back to the quarter, you don't break out Instagram revenue or financials, but wondering if the acceleration in the quarter, would you say was that driven more so by the step up in Instagram given the opening up of the API, the incremental Instagram ad load, or was there a commensurate acceleration in the core Facebook revenue? Thanks.

**Sheryl Sandberg:**

In terms of video content, newsfeed is as interesting as the quality of the content in it. What we're seeing is that users are generating a lot of really high quality content, often pretty short form that people are really happy to consume. And we believe that trend will continue because we're at the very beginning with people really understanding the power of the smartphones that a lot of people are walking around with, particularly in developed markets.

We are working with publishers to try to make the content experience better inside of newsfeed. The best example of that is probably news, with Instant Articles, where we figured out that it was the slowest upload experience you could have in newsfeed to link off to an outside article, so we've worked with publishers to upload more news articles natively to Facebook and we're seeing, we're seeing great engagement from that.

Similarly, we've had conversations with makers of premium content. I think they are excited by the work they already do with us to use Facebook to distribute their content. And we're interested in doing more. It's probably worth noting that much of the engagement and consumption we have is short form, not long form.

**Dave Wehner:**

Anthony, it's Dave. You know Instagram, we're certainly very pleased with the performance of Instagram and it's certainly made a contribution this quarter. But make no mistake, core Facebook is really driving the top line and you know we're very pleased with the strong performance that we had with Facebook itself in the quarter.

**Operator:**

The next question is from Carlos Kirjner with Bernstein. Your line is open.

**Carlos Kirjner:**

I have two quick questions. I am interested in the plans to allow users to do other things beyond liking content. I think you call it reactions. I call it adding more words to the Facebook graph.

Can you talk about the rollout of this capability and whether this is something you only see at Facebook.com or whether it's going to be widespread across the Web and other sites, much like the "like" button.

And secondly, can you talk about your thinking of the different Facebook platforms in payments? Are there things that you will not do because you don't have or do not want to acquired the skill and assets? What's the boundary for what you could do with payments? Thank you.

**Mark Zuckerberg:**

Sure. So Reactions is going to roll out on every platform. We're testing it in a handful of countries to start, just to make sure that we have the UI and interaction simple enough that people could express more of what they wanted without getting in their way.

It is adding a little bit of complexity to something that is very simple today, just a one-tap like button. But the philosophy behind it is that when you only have a "like" button, if you share a sad piece of content or something that makes you angry, people may not have the tool to react to it and therefore over time the community feels less comfortable sharing that kind of content on Facebook.

And we want people to be able to share all of the things that are meaningful to them, not just the things that are happy and that people are going to like when they see it. And we think that that's just really important to the mission of the company and will increase engagement and sharing and openness and all of the things that we care about.

And so far, I think there are a few tweaks that we needed to make to Reactions since initially testing it, but it's going well and I think we plan to roll it out everywhere pretty soon. So that's the game plan there.

On payments, the basic strategy that we have is to make it, especially in products like messenger, that, where the business interaction may be a bit more transactional, to take all the friction out of making the transactions that you need. So we don't view ourselves as a payments business. That's not the type of company that we are. We'll partner with everyone who does payments.

We look at the stuff that Apple is doing with Apple Pay, for example, which is a really neat innovation in the space that takes a lot of friction out of transactions as well. And our view is that the less friction, the better the user experience, the more people can easily interact with businesses that they care about.

And ultimately for our business, that will drive up the amount that businesses are willing to pay to advertise to send people into those kind of interactions, because they perform well. So it's good for everyone, but that's kind of how we think about that.

**Operator:**

The next question is from Michael Nathanson with Moffett Nathanson. Your line is open.

**Michael Nathanson:**

Thanks. I have two. Following on Mark's answer to the question about payments, I wonder, Sheryl, if you look at the fourth quarter, as you said, it's a defining moment for marketers and with the friction of transactions getting easier. Was there any type of shift in the marketers or verticals that move money to Facebook in the quarter? Do you see more retail, let's say, or anything different in terms of the composition of who is buying in fourth quarter?

**Sheryl Sandberg:**

Fourth quarter is a holiday quarter, so our top verticals were eCommerce, CPG and retail. Our growth is really broad-based. And I think it really shows how important the targeting can be. What we've definitely done over the last year and plan to invest even more in over the next year is worked hard on vertical-specific targeting.

So for example, for the telecom industry, being able to target existing consumers with new consumers, with people who are you know voice plan or data plan's about to expire. With the auto industry, really important industry for growth for us, helping them figure out who their current customers are, who their potential customers are, and where are the audience segments out there who have similar likes, interests, backgrounds, demographics to their current customers so that they can serve the right ad to the right people.

The kind of things we're able to do with targeting and measurement apply across industries and obviously have to be industry and vertical-specific and we're working hard at that.

**Operator:**

The next question is from Mark Mahaney with RBC Capital Markets. Your line is open.

**Mark Mahaney:**

Great, thanks. Two questions. Sheryl, could we talk about political advertising and how you think about the attractiveness and any anecdotes you have on Facebook as a platform for political campaigns?

And then Mark, the story is in 2012 at the beginning of that year, you realized just how powerful the movement was towards mobile devices and you turned to your engineers and said we need to generate a billion in revenue off mobile devices. I wonder if you've had that same conversation with engineers when you think about the two messaging platforms you have.

They have got a large number of users and clearly globally, we've seen this massive shift over towards messaging you know the Internet has changed. Now people have engaged with it. Do you feel like you had or do you need to have that kind of billion dollar conversation with your engineers about those two messaging platforms? Thanks.



**Sheryl Sandberg:**

In terms of the elections, it's important to note that we're large and diversified, so no one vertical drives our business. Yes, the 2016 election's a big deal in terms of ad spend. But so is the World Cup. So is Super Bowl every year. So are events like the Olympics.

We are excited about the kind of targeting we're able to offer for ads platform. We believe we have precision that doesn't exist on any other platforms. So for example, using Facebook and Instagram ads, you can target by congressional district, you can target by interest, you can target by demographics, or any combination of those. And we're seeing politicians at all levels really take advantage of that targeting.

It's also probably worth saying that we're pretty excited about what's happening with the elections organically on Facebook. Facebook's really the new town hall and connecting the people who are running for office, both at the national and the local level, with people directly has been really important. Every member of congress in the United States is now on Facebook.

We're seeing some of them post every vote and explain why they are voting. We've seen candidates for president get on Facebook themselves and interact, taking questions from you know their potential voters directly. And we think that kind of direct engagement, where people can hold their elected officials accountable and elected officials can speak directly to constituents is a really important part of our mission and we're excited about the 2016 election and what's happening there.

**Operator:**

The next question ...

**Mark Zuckerberg:**

I'll answer the other one. You know in terms of the story that you said, I think you have it wrong. I don't know where you got that story from. I never had a conversation with the team where we were behind on mobile and then I said we need to do this to make money. That's not really how we operate.

What happened is we realized that mobile was growing faster than desktop and that people were shifting their usage. And it was the more important thing for people's consumer experience. And that's when we made the shift, not in our business first, but in how we developed products.

And I told all of our product teams you know when they come in for reviews, really just come in with mobile. If you come in and you try to show me a desktop product, then I'm going to kick you out. You have to come in and show me a mobile product. And that, I think, was just as a crude leadership tactic, somewhat effective in helping to motivate the organization to shift its energy towards focusing on mobile.

But it was – if you remember, we actually went through a pretty tough period because we went through this period where our mobile experience was not as good as we wanted it to be, and we had no ads on mobile, and we actually prioritized making the mobile experience good before putting ads in.

So there was a long time where people thought that you know our business might not be as good because we had no ads on mobile. And that was because we always prioritized the experience for people above, even if it's going to be a painful thing for the company. You know that's how I think about messaging. We know that messaging is going to be increasingly important.

That's why we went out and hired David Marcus, who is one of the best product leaders in the field to run messenger and why we bought WhatsApp, which is the leading messaging product worldwide.

And we have a formula for how we build these businesses. First, you build a great consumer experience, right, that helps people share in a new way that's really important.

Then, after that, you can start to introduce organic ways that people can interact with businesses. So that – and Facebook is pages. The businesses that people want to interact with, the public figures, the politicians. Not necessarily ads, but organic interactions around not necessarily just your friends and families, but more public figures and businesses. And then only once you have that ramped up to a good, to a good scale can you really start dialing up advertising, having that feel good and be a good part of the experience with good content because all of those public figures and businesses are already participating in the platform at scale.

So you can expect to see that playbook in Instagram where we're pretty far along in terms of having quite a mature public content ecosystem and ads are ramping well with good, high-quality ads because a lot of public figures and businesses are already investing in creating that kind of good content that goes on Instagram.

And you're going to see the same playbook in messenger and WhatsApp, in terms of making it so there are organic businesses and public figures. There's a bit more of that on WhatsApp already in terms of businesses using it than on messenger. We are catching up on messenger, but we'll do that on both.

Once we have those eco systems built out, we'll build businesses around them. And that's how we think about stuff. And we'll do that in all of our products and the different things that we do going forward.

**Deborah Crawford:**

Operator, looks like we have time for one last question.

**Operator:**

Certainly. The final question is from Paul Vogel with Barclays. Your line is open.

**Paul Vogel:**

Great, thanks. Just two questions. One, on the Facebook sports stadium, just wondering how you think about that in terms of how is it going to be different from other offerings, what's the big differentiating factor, and how do you get folks to participate in that?

And the second side, just on the margin side again, do your revenue and costs line up geographically, so there's obviously a translation impact to the numbers, but is there any operating mismatch between revenue and costs that would either benefit or hurt margins?

**Sheryl Sandberg:**

On the sport stadium, this is an early test, but we're pretty excited about it. We are the largest community of sports fans in the world. We have 650 million sports fans on our platform. And people are already using Facebook to share during real-time events, an increasingly important use case for us. This gives people a place to share to share that one event and participate in it.

I think what you'll see from us is always a focus on driving users and driving engagement. This is one way to do it. We'll see how it works. We're pretty open to experimentation. So we feel – but we feel pretty confident that real-time sharing is an increasingly important part of the platform and one we'll continue to invest in.

**Dave Wehner:**

And Paul, it's Dave. I think that question is really around sort of FX and how it relates on the revenue side versus the cost side. And on that front, we're – substantial majority of our expenses are U.S. dollar-based, so certainly we see an impact to margins with FX headwinds.

So that's just the reality of having most of our development resources, for instance, in the U.S.. So beyond that, we don't do geographic cost breakouts and allocations. It's not how we run the business. But certainly from an FX point of view, FX headwinds have a dampening effect on margins.

**Deborah Crawford:**

All right. Thank you for joining us today. We appreciate your time. And we look forward to speaking with you again.