

— PARTICIPANTS

Corporate Participants

Deborah Crawford – Director of Investor Relations, Facebook, Inc.

Mark Elliot Zuckerberg – Chairman & Chief Executive Officer, Facebook, Inc.

Sheryl K. Sandberg – Chief Operating Officer & Director, Facebook, Inc.

David A. Ebersman – Chief Financial Officer, Facebook, Inc.

Other Participants

Heather A. Bellini – Analyst, Goldman Sachs & Co.

Ross A. Sandler – Analyst, Deutsche Bank Securities, Inc.

Anthony Joseph DiClemente – Analyst, Barclays Capital, Inc.

Jordan E. Rohan – Analyst, Stifel, Nicolaus & Co., Inc.

Youssef H. Squali – Analyst, Cantor Fitzgerald Securities

Justin Post – Analyst, Bank of America Merrill Lynch

Gene E. Munster – Analyst, Piper Jaffray, Inc.

Ben Schachter – Analyst, Macquarie Capital (USA), Inc.

Mark S. Mahaney – Analyst, RBC Capital Markets LLC

Ken Sena – Analyst, Evercore Partners (Securities)

Douglas T. Anmuth – Analyst, JPMorgan Securities LLC

Brian W. Wieser – Analyst, Pivotal Research Group LLC

Aaron M. Kessler – Analyst, Raymond James & Associates, Inc.

Daniel Ernst – Analyst, Hudson Square Research, Inc.

— MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jay and I'll be your Conference Operator today. At this time I would like to welcome everyone to the Facebook First Quarter 2013 Earnings Conference Call.

[Operator Instructions] After the speakers' remarks, there will be a question-and-answer session.

[Operator Instructions] Thank you very much.

Ms. Deborah Crawford, Facebook's Director of Investor Relations, you may begin.

Deborah Crawford, Director of Investor Relations

Thank you. Good afternoon, and welcome to Facebook's First Quarter Earnings Conference Call. Joining me today to talk about our results are Mark Zuckerberg, CEO; Sheryl Sandberg, COO; and David Ebersman, CFO.

Before we get started, I would like to take this opportunity to remind you that during the course of this call we will make forward-looking statements regarding future events and the future financial performance of the company. We caution you to consider the implied risk factors that could cause actual results to differ materially from those in the forward-looking statements in the press release and this conference call. These risk factors are described in our press release and are more fully detailed under the caption Risk Factors in our annual report on Form 10-K filed with the SEC on February 1, 2013. In addition, please note that the date of this conference call is May 1, 2013, and any forward-looking statements that we make today are based on assumptions as of this date. We undertake no obligation to update these statements as a result of new information or future events.

During this call we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. This call is being broadcast on the internet and is available on the Investor Relations section of the Facebook website at investor.fb.com. A rebroadcast of the call will be available after 6:00 p.m. Pacific Time today. The earnings press release and the company investor presentation are also available on our website. After management's remarks, we will host a Q&A session.

And now I'd like to turn the call over to Mark.

Mark Elliot Zuckerberg, Chairman & Chief Executive Officer

Thanks, Deborah, and thanks, everyone, for joining us today. We got off to a good start this year with strong engagement and growth across the community, several major new product announcements, and some good financial results. Sometimes it surprises me that our community can still grow so quickly beyond a billion active members. More than 100 million new monthly active members have joined in the last half a year, but now there are more than 650 million people who use Facebook every day. That's more than 60% of our community every day. We continue to see high levels of engagement globally across our whole community. We take our stewardship of this very seriously. We want to make sure we give every person in the world the power to share, and we're proud of these results.

Overall, there are three main parts of our strategy: build the best Mobile product; build a platform with new services that leverage the social graph; and build a strong monetization engine. I'm going to use my time with you today to give my assessment of how I think we're doing in each of these areas.

Let's start with Mobile. One of the products I'm most excited about is Facebook Home. It's a family of apps that you can install on your Android phone to make the whole screen of your phone much more personal and about people, not apps. We know that people spend an average of 20% or more of their time in apps on Facebook, staying up-to-date with what the people they care about are doing. We each open the Facebook app maybe 10 to 15 times per day, but we probably check our phones over 100 times a day. So with Home, you can see fresh news and content from people and topics you care about every time you turn on your screen. It really brings your phone to life and provides a completely new experience.

This product is still very early, and this is just the first release in a long journey. We're planning on iterating quickly and tuning things based on feedback. We haven't really started encouraging people to install it from within our apps yet, and it's only available on a few phones. But over the next few months, we hope to push this out much more broadly and get this in the hands of a lot more people. We're excited about Home because we think it's a great product, but Home is also an important milestone for our company. This is a completely new kind of mobile experience based on people, not apps, and we think this is how phones and computers should work. I'm looking forward to sharing more with you on the experiences that are borne on Mobile that we're building over the rest of this year.

Now beyond Home, I'm really proud of how Instagram is doing. Kevin and his team have made amazing progress since last April. When we agreed to acquire them, the Instagram community had 22 million people actively using their service every month. And today, over 100 million people are using Instagram each month. The Instagram community is growing even faster than the Facebook community did when it was this size, and the two communities complement each other to create some great experiences where you can capture any moment in your life and easily share it across all the communities you care about.

Next I'd like to talk about platform and building new services using the social graph. A couple of months ago, we announced a new, richer and simpler design for a newsfeed that's more visual and engaging for all of the content that you might want to consume, from news stories from the New York Times to pins from Pinterest or activities from a game that you play. This new design opens up a nicer canvas for content for every developer and publisher out there, and we think it's going to create a lot more opportunities for engagement. Early feedback has been positive on the versions we've rolled out on the iPhone, iPad and desktop web, and we're looking forward to rolling this out more widely soon.

For our development platform, we've had a long roadmap to build the tools for iOS and Android to make building social apps and advertising with Facebook as easy on Mobile as it is on desktop web. We completed this transition by bringing Open Graph to Mobile this month, and our efforts are paying off with now 81 of the top 100 grossing iOS apps and 70 of the top 100 Android apps integrating with Facebook and continuing to grow.

One of the developments that's been interesting is seeing how big of an opportunity Mobile Apps can be for Facebook. Because of the roles Apple and Google have in the space with their app stores, it wasn't as clear early on what kind of a role Facebook can play. But I think it's clear now that we can create a lot of value for developers by providing a platform for identity and distribution, and we're starting to see real revenue through selling Mobile App installs. We just announced the acquisition of Parse, a platform and service provider for Mobile Apps, as part of our strategy to provide greater support for developers. Both of these products make it easier for developers to create and grow their apps, and this could be the start of something much bigger.

Now I want to talk a bit about monetization. I just mentioned Mobile App install ads, which are growing quite well and have become one of our most important new ad products. This supports our hypothesis that Facebook should help you discover new apps and content that you may want to use. And even if not every recommendation we make is one that you take, I think this is still starting to provide some really good content for our community in addition to the business opportunity here. This type of ad make sense to me on Mobile. On desktop web, most ads encourage you to visit a new website. On Mobile, it makes sense that most ads encourage you to visit apps instead. And in order to visit apps, you first need to install them. To me those are the obvious first steps.

On Mobile, the set of companies that produce apps is much broader than what you might think of as traditional developers. Every major brand, company or service wants to build apps as a storefront or interface for their customers, and each of these companies wants to reach their customers to encourage them to install their apps. This market is already big, and I expect it to continue to grow quickly.

One more thing that's important to reinforce here is that we continue to measure people's satisfaction with all the content they see on Facebook, including ads. We haven't seen any meaningful impact on satisfaction, and we're continuing to watch this very closely. This is important to us as stewards of this community. We aspire to have ads – to show ads that improve the content experience over time and if we continue making progress on this, then one day we can get there.

So that's my update on our strategy for this quarter. We've already accomplished a lot so far this year. We've seen strong growth and engagement across our whole community, several major product announcements, and good financial results. We think that products like Home and Graph Search are big opportunities to deliver some unique and important services to the world that we're positioned to do better than anyone else. And these services are also big long-term investments. So I want to be clear up front that we're making these big investments, because I just think these are important areas for us to focus on.

Now finally, I want to take a moment to thank everyone who works at Facebook and everyone who makes this community great. All of you are contributing to building these new experiences and

helping more than a billion people stay connected. So thank you all. And thanks to everyone on this call for being with us today. I look forward to having more to share and report on next quarter.

And now I would like to turn the call over to Sheryl.

Sheryl K. Sandberg, Chief Operating Officer & Director

Thanks, Mark. As Mark said, we had a very solid start to this year, and we're excited about the opportunities ahead of us. Our first quarter total revenue was \$1.458 billion and total advertising revenue grew to \$1.245 billion. This means that ad revenue was up 43% year-over-year, faster growth that we had in any quarter in 2012. We believe that this shows that our ad product innovations are helping marketers reach customers effectively. Our growth is particularly strong for new small- and medium-sized marketers, direct response marketers, and app developers.

I want to use my time with you today to update you on the progress we've made in our three strategic ads priorities, Mobile, measurement and product innovation.

First, Mobile. As Mark just said, having billions of people carry social devices in their pockets, checking them multiple times a day, often checking Facebook, is a huge opportunity for us. A recent comScore report showed that in the U.S., people spend more time on Facebook than on any other app on their smartphones. The opportunity for us to connect people to each other and to marketers has never been greater; we are uniquely positioned to offer marketers massive reach on a daily basis.

In Q1, Mobile was approximately 30% of our ad revenue, up from about 23% in Q4. Importantly, we're seeing strong growth in our Mobile Ads business all around the world, particularly in Asia. As an example, our Mobile App install ads performed very well this quarter. We offer developers a unique opportunity to drive downloads of their mobile apps, as Mark talked about. During the quarter, 3,800 developers used these ads to drive nearly 25 million downloads. Of the top 100 grossing apps on both iOS and Android in the last week of Q1, about 40% of them used our Mobile App install ads. In gaming, travel, e-commerce, and financial service industries, the early indicators are that our cost per install are highly competitive. In one example, British telcomm provider O2 used Facebook as its only digital marketing channel to promote its new music app, O2 Tracks. In just three days, they reached 9 million people and got to sixth place in iOS apps in the U.K.

Second, I want to discuss our progress in measurement. One of the challenges we face is helping marketers understand the value of our ads. This has been a major focus for us over the past several quarters. We're partnering closely with our clients to help them understand how their campaigns are performing, and this measurement work also helps them gain a better understanding of their customers, which then makes their future campaigns even better. In the last nine months, we've conducted campaign effectiveness studies on over 100 campaigns across CPG, auto, retail and telco. One of these studies was with Bud Light. Bud Light ran page post ads to its 5.8 million fans on Facebook, and these ads appeared in all of our placements, including Mobile news feeds. We worked with DataLogix and found that these ads reached 20% of U.S. households and had a 3.3% sales lift, yielding a six times return on ad spend, a result we are very proud of and Bud Light was really excited about. We plan to continue to invest heavily in measurement with our clients throughout the upcoming year.

We're also really excited about our acquisition of Atlas which closed just last week, and I was able to welcome the team to Facebook earlier today. Atlas is a really important part of continuing to develop our measurement capability. For the past decade, digital marketers have primarily measured success by focusing only on click, but this oversimplifies how people make purchase decisions both offline and online, because it ignores everything people do and see before they view

that last click. Smart marketers are looking for a better way to value all of the impressions that they buy and engage with leading up to purchase.

Multiple industry-wide studies have validated this multi-click attribution approach. For offline sales, both Nielsen and comScore have repeatedly shown that clicks are not a good predictor of sales lift. For online sales, aggregate knowledge found, in an analysis of more than 500 online campaigns, that when clients moved from allocating their advertising spend using last-touch attribution to using multi-touch attribution, they saw a 33% increase in actions, conversions and sales. In a study of campaigns from Q4 2012, they found that when measured holistically, cost per acquisition on Facebook is 68% less than other online channels. Datalogix study validate this finding as well, demonstrating that on average, 99% of people who saw a Facebook ad and then bought a product in the store never clicked on an ad at all.

We believe the Atlas platform will help us demonstrate even more clearly the connection between ad impressions and purchases. We can help marketers measure the effectiveness of their ad impressions better not just on Facebook, but across the entire Internet. This means we can take the advancements we've made in measurements on Facebook, including our integrations with Nielsen and Datalogix, and extend them to a much larger audience and to many more purchases.

Third, I'd like to highlight product innovation in ads. Over the last year, we've invested heavily in product innovation and I'm excited about what we've accomplished in a relatively short period of time. As always, our top focus is on the results we generate from marketers, and we're pleased to see the ROI we can provide as well as providing a good experience for our users. We continue to innovate new targeting capabilities that make it easier for businesses of all sizes to reach the right people, both on Desktop and on Mobile.

In Q1, we gained traction with our Custom Audiences product. This product allows marketers to reach their target audiences based on their own customer databases or databases maintained by third parties. For example, a marketer can target ads to customers who have not returned to their store in the past month, but who have made purchases before. This product improves our targeting and generates higher ROI per marketer, and a better ad experience for users. We're really pleased with our adoption of this product. In Q1, more than twice as many marketers used Custom Audiences than in Q4, including 23 of the Adage 100 top global marketers, and many other important clients. Companies from Hotels.com to Intuit to Virgin America are seeing success with this product.

In April, we launched another powerful targeting product, Partner Categories. This enables marketers to use third-party data from Acxiom, Epsilon and other data providers to target their ads. For example, we can deliver ads to the 12 million people in the U.S. who are likely to purchase a car in the next six months, or to the 19 million people who are active purchasers of hair care products, households that purchase hair care products at multiples of other households, or to the 23 million people in the U.S. who are heavy soda drinkers. We apologize, Mayor Bloomberg.

We have also seen more customers begin to use FBX, and we recently launched FBX and newsfeed desktop. We think this will continue to drive advertisers adoption, given that we generally see higher engagements for ads in newsfeed. In the last six months of 2012, as one example, retargeting platform Adroll saw 70% lower cost-per-click on Facebook than on traditional web retarget. FBX was so successful for them that by the beginning of Q1, Adroll reallocated 63% of their total impressions to Facebook.

Overall, we feel really good about our first quarter results. We've made tremendous strength in Mobile; we continue to improve our measurement capabilities, most notably with our acquisition of Atlas; and we continue to innovate on our key advertising products and tools. We're still in the early days of developing our ad business and the huge opportunity ahead of us, and we thank all of you for your continued interest in our business.

Thank you. I'd now like to turn it over to David.

David A. Ebersman, Chief Financial Officer

Okay. Thanks, Sheryl, and good afternoon, everyone. I'd like to share with you the progress we made in Q1 against our key financial objectives: to increase revenue, to invest aggressively to drive our future growth, and to position the company to maximize long-term returns for our investors.

In March, on average, 665 million people accessed Facebook each day, up 26% from last year and representing 60% of the 1.11 billion people who used Facebook during the month. Consistent with last quarter, Mobile continues to drive growth in visitation and engagement. 751 million people accessed Facebook from mobile devices in March, up 54% from last year. These numbers do not include Instagram which continues to grow rapidly, as Mark mentioned.

Turning to revenue, in Q1 total revenue was up 38% and ad revenue was up 43% compared to last year, driven by the strong performance of News Feed ads. Exchange rates had no meaningful impact on our revenue growth rates. Ad impressions were up 39% and average price per ad was up 3% compared to last year. The product changes we made and discussed last quarter, primarily lowering the price floor in our auction, had a significant impact on the price and volume year-over-year comparisons. In the United States and Canada, where the price floor changes had a smaller effect, average price per ad increased over 25% relative to Q1 of last year, driven by higher engagement and performance of News Feed ads.

Mobile ad revenue came in at approximately 30% of ad revenue this quarter versus 0% last year, and Desktop ad revenue in Q1 was essentially flat with last year. As we've discussed in the past, most of our advertising clients do not specify that their Facebook ads be shown on Desktop only or on Mobile only, but rather they put their ads into our system and allow us to show the ads on whatever device where the ads will perform best. Because of this, the flat Desktop revenue does not reflect a particular trend relative to desktop demand so much as it reflects the fact that more of our available ad inventory is being shown on Mobile, because that's where people are spending increasing amounts of time and because the Mobile ads perform well. We believe our aggregate ad revenue number remains the most important reflection of our performance in terms of increasing overall advertising demand, and the most important ways for us to continue to increase ad revenue are to grow users and engagement and to build advertising products and measurement tools that increase demand from advertisers of all types around the world.

Total payments and other fees revenue was \$213 million in Q1, an increase of 15% versus last year. Payments revenue from games was up 12%, but we believe 6% represents the best apples-to-apples comparison in terms of the increase for payments from games if we adjust for items such as the Q4 change in revenue recognition timing. We're pleased that Q1 represented our largest three-month quarter of games revenue to date, despite a 37% drop in year-over-year payments volume from our largest developer, as our other developers increased their payments volumes by almost 60%, and we saw a record number of people playing games on Facebook. Games revenue in Q1 benefited from the growth of games launched over the past year, and also from our efforts to increase games distribution, usage and payments conversion. We believe Facebook continues to offer a compelling platform for developers to build great games and businesses, and we will continue to invest in this area.

Overall ARPU increased 12% to \$1.35 for the quarter, including a 21% increase in the United States and Canada and double-digit gains in the other major regions as well.

Shifting now to expenses. In Q1 our total GAAP expenses were \$1.08 billion. Excluding stock compensation, total expenses increased 56% to \$895 million, driven primarily by head count and

infrastructure spend to support our growth. We continue to expect that our total non-GAAP expenses, including cost of revenue but excluding stock comp, will likely grow in the neighborhood of 50% in 2013, consistent with what we said last quarter, as we continue to invest in products to grow engagement and monetization.

Our Q1 GAAP operating income was \$373 million, representing a 26% operating margin. Excluding stock comp, our non-GAAP operating income was \$563 million, representing a 39% non-GAAP operating margin.

Our GAAP tax rate for Q1 was 38% and benefited significantly from the realization of a one-time \$94 million R&D tax credit in the quarter. Our Q1 non-GAAP tax rate was 43%, and we expect that our full year non-GAAP tax rate will be similar to Q1. GAAP net income and EPS for the quarter were \$219 million or \$0.09 per share, and non-GAAP net income and EPS were \$312 million or \$0.12 per share.

We spent \$327 million on CapEx in Q1, and we continue to expect 2013 CapEx to be in the neighborhood of \$1.8 billion as we invest in servers and data centers to rapidly and reliably provide our products to people around the world. In Q1, similar to Q4, upon the vesting of employee RSUs we withheld shares and paid the associated income taxes for our employees, which resulted in an outcome that's functionally very similar to Facebook having repurchased approximately \$400 million worth of shares in Q1. We ended Q1 with \$9.5 billion in cash and investments.

Overall, we believe that 2013 is off to a good start. We're pleased with our financial performance as well as our progress in product development; we're continuing to invest aggressively in new products that we think will drive long-term engagement as well as products and tools to grow our revenues and increase returns for the advertisers and developers working with us; and we're excited about the opportunity ahead of us to build out the network of people using Facebook and to bring our unique assets in terms of reach, engagement and identity to our large and important market opportunities.

Now let's open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Heather Bellini with Goldman Sachs. Your line is open.

<Q – Heather Bellini – Goldman Sachs & Co.>: Great. Sorry for that, I was on mute. Mark, I was wondering, you shared with us the continued success of Mobile install ads. I was wondering if you could share with us the other monetization initiative that you have that you're most excited about for 2013? And then my follow up for David would be if you can share with us qualitatively how CPMs trended in the various regions on a year-over-year basis?

<A – Sheryl Sandberg – Facebook, Inc.>: So I'll take the first question. In terms of our ads priorities, they're what I mentioned: Mobile, measurement and product innovation. We are particularly focused on improving the quality of our ads because we think that is the best way to have a great experience for users on Facebook as well as for marketers. I think if you look at the success of Custom Audiences, Partner Categories, FDX, what you see in that are products that all move us towards better targeting, more relevance, better experience for users, and for our marketers, and we're going to continue to invest very heavily in making the ad experiences as high-return as they can for everyone involved.

<A – Mark Zuckerberg – Facebook, Inc.>: Yeah, and I'll just, I'll just emphasize the same point. I mean the things that I'm most excited about are things that are driving quality, right? I mean, the two big levers for the business are: a) obviously a lot of people spend a lot of time using Facebook to stay connected with all the people around them, and that gives us an opportunity to advertise. But I actually think over the long term, the thing that's going to drive the business the most is getting the ads to be very high-quality, personalized, good content in there. And a lot of the things that we're doing are aligned with that. So app installs, that's – a lot of that stuff is just good content that people are interested in; there's no great way besides app stores today to discover a lot of apps on mobile devices.

Similarly, I talked about the newsfeed redesign that we are rolling out, and the content in there is much more visual. And we've always had this policy that the advertising content will display in exactly the same way that the consumer content displays, and making it so that people can share much more visual content, makes it so that naturally advertisements can now have the same kind of compelling creative as well, which I think will increase the quality of that and over time increase the effectiveness as well.

<A – David Ebersman – Facebook, Inc.>: So, Heather, in terms of your question about CPMs, ads revenue grew well across all the geographic regions that we report on, I mentioned the U.S. and Canada growth in CPMs. We saw a similar number, a little bit lower, but similar in Asia. For Europe and rest-of-world, the numbers were much lower, a little bit above zero in the case of Europe, a little bit below in the case of rest-of-world. The interesting question around this is what those numbers might have looked like if we hadn't made changes in the auction dynamics and – such as the price floor. And obviously we can't answer that question quantitatively because we don't have the data. But we feel pretty strongly and pretty confident that prices would have increased substantially more in all of the regions if we hadn't made those changes.

Operator: Your next question comes from Ross Sandler with Deutsche Bank. Your line is open.

<Q – Ross Sandler – Deutsche Bank Securities, Inc.>: Yeah, just two questions. Engagement first was up across most of the geographies. We assume that's primarily driven by Mobile but can you talk about anything else that's driving up engagement?

And then just a follow-up on the geographies. So it looked like the U.S. had kind of the normal seasonal downtick sequentially whereas international, most of those regions held up sequentially.

So is there – can you just talk about the difference between sell-through rate in the U.S. in newsfeed versus some of those international markets? Thanks.

<A – David Ebersman – Facebook, Inc.>: Yeah, so in terms of growth and engagement geographically, I think you can see from the numbers that growth was strong across all the areas of the world; we continue to add a lot of users in places like India and Brazil. And engagement trends I think we're similarly strong throughout, and Mobile is clearly a big part of that equation and been very helpful to us in terms of getting more users, more daily users and more engagement from those users.

In terms of revenue by geography, I don't know that there's a lot to add to the numbers I've already said. Europe looks good in the first quarter after being a little bit softer towards the end of last year and we continued to grow well in Asia and the rest of world, so I think just pretty consistent performance there.

Operator: The next question comes from Scott Devitt with Morgan Stanley. Your line is open.

<Q>: Hi. It's [ph] Jordan Ronhan (29:05) on for Scott. Just two quick questions. The first is one of your competitors recently said something to the effect of, if you're building for Mobile you're building for today but not tomorrow suggesting that tomorrow is a multi-screen world with all sorts of personalized devices. And I'm just curious, what opportunities do you see when you think about tomorrow? Would you agree that screen fragmentation will continue to increase and does moving ads toward newsfeed and away from right-hand side help you in that environment?

And then the second question is just about engagement. Engagement continues to improve despite more ads, which validates your strategy. So every time you launch a new product, people get concerned that that engagement may actually tick down but it seems to do the opposite. So are there other ad formats that you're thinking about that are likely to be complementary to engagement?

<A – Mark Zuckerberg – Facebook, Inc.>: All right. Well, I'll start. I think the trend of more different form factors I think is somewhat orthogonal from the main trend that we see, which is just people sharing more in different ways. And people want to stay connected with their friends and family, and all these different folks in their lives, and they're going to use whatever technology they have to enable that, whether that desktop computers or laptops or phones or tablets or glasses, or like whatever the products are. And I think that there's going to be good ways for people to be able to consume social content on all of those. So I think the big question for us is just which platforms do we see growing the quickest?

We're not tooled up as a company right now to make, you know, 10 huge investments like that at a time, but we can do a couple. Certainly, tablets are growing very quickly and I think that's going to be increasingly important, but I think that consuming social content and staying connected with people is just such a fundamental human need that that's going to be important on all of these.

And getting ads in newsfeed was a valuable step in making it so that everywhere where someone is consuming content from Facebook the business model kind of goes along with that naturally. And you know that was one of the early challenges that we had with Mobile was that ads to the first six or seven years of Facebook were just this right-hand column, and that didn't translate to Mobile. But it was fairly easy with some amount of work just to kind of make that transition and we're there now. And now I think whatever the form factor is going forward we'll be able to deliver advertising content in a proportion that we think is good along with consumer content.

For the sentiment stuff, I think what we're seeing is really positive and it's better than expectation. I mean we assumed that sentiment and satisfaction might drop some amount. You know, we continue to watch this really carefully because there's no guarantee that it won't in the future; but

right now what we've seen has made us more confident that we can do more with advertising over time and can ramp that up. Our strategy isn't to have like a ton of different ad units. We really want to make it so that we're delivering these end-to-end solutions for our customers and only have a small number of simple things to make it easier for advertisers to work with us. And we want to deliver that, and we're kind of underway on this long roadmap to execute that.

Operator: The next question comes from Anthony DiClemente with Barclays. Your line is open.

<Q – Anthony DiClemente – Barclays Capital, Inc.>: Thanks a lot. I have one for Sheryl and one for David. Sheryl you talked about Atlas and the measurement capabilities there and you framed it in terms of click based ads. I'm wondering, is there also an opportunity for Atlas to improve or standardize measurement for impression based ads? And I guess spirit of the question more generally, can you just talk about or update us on the potential for impression based ads in terms of increasing as a percentage of the mix versus performance based ads on Facebook?

And then David, question would be, a little bit of a decel in the rate of growth of ARPU in the U.S., I'm wondering if there are other things you can call out in the first quarter, be it dollars from large events, TV events, like the Super Bowl, or other things, other than seasonality? Or maybe you can quantify or comment on the seasonality factor in the U.S. and Canada for the 1Q? Thanks a lot.

<A – Sheryl Sandberg – Facebook, Inc.>: So on Atlas, you're exactly right. Our focus with Atlas is on impression based ads. And the idea is that historically a lot of ads online, which were more based on search, the attribution was always that last click. And as people have looked more holistically at all the ad spending they're doing, what they find is that it's not the just the last click that matters, but it's all the impressions leading up to that click. Importantly, we also drive sales offline. And offline, people aren't clicking through to purchase at all but they're actually walking into a store, so in some sense there is no last click. And so our focus with Atlas is to take that technology and enable us to improve our ability to connect ad impressions to purchase behavior, both offline and on. And not just on Facebook but across different ad purchases people do. So that's exactly why we made that purchase.

<A – David Ebersman – Facebook, Inc.>: In terms of ARPU in the U.S. and Canada, was up 21% versus last year, so it's continuing to make good progress there. I really don't have anything unique to say about seasonality in 2013; we see it from Q4 to Q1 across the years that we've been an advertising business. And I'm sure there are unique things that impact each year, but there's nothing that we're aware of that was particularly important in 2013, in that regard.

Operator: The next question comes from Jordan Rohan with Stifel. Your line is open.

<Q – Jordan Rohan – Stifel, Nicolaus & Co., Inc.>: Thanks so much. I'm curious about how you address markets where it's a little bit harder to sell advertising. Specifically, if I'm calculating correctly then 41% of monthly active users are in the U.S., Canada and Europe as you define those geographies in your slides and that's 74% of ad revenues. How can the other geographies of the world step-up to be an even more meaningful percentage of total revenue? Do you have to add a lot of heads, a lot of sales infrastructure and technology infrastructure that you don't currently have? And from that perspective, did you meet your objectives in terms of hiring and expenses? Because I know how hard it is to support a business as global as Facebook. Thank you.

<A – Sheryl Sandberg – Facebook, Inc.>: So I'm very encouraged about our opportunity to sell ads all over the world. One thing I've learned in my time selling ads on the Internet, which is going over a decade now, is that markets that you don't expect to have ad markets develop faster than you would think. So if you had asked me seven years ago what Turkey's ad market would look like, I would not have [ph] appraised it as it is (36:11) today.

So I'm increasingly encouraged by small businesses around the world and large businesses and their adoption of the technology. I think with small businesses we have an actually really deep competitive advantage, which is that people all around the world use Facebook. So when small businesses, who are historically way too busy to spend a lot of time using technology, start to use the Facebook platform, they're using something they already use as users. So once you have a timeline or a profile, setting up a page is not a very big ask because you understand it, and you're doing it anyway. And that's why we think, with almost no direct effort we have 16 million small businesses actively using Facebook pages. I think one of the things we've done well over the past number of quarters is rolled out simplified ad products, like promoted posts, where it's easy for those people who are using pages, and this happens all over the world, to become advertisers. And we're increasingly optimistic that we can do more and more of that.

<A – David Ebersman – Facebook, Inc.>: In terms of hiring, I think everything's going quite well. And as we've discussed 2013 is the year where we're investing for future growth and I think in the first quarter, both in terms of hiring and building out our infrastructure we're on track with where we want to be.

Operator: Our next question comes from Youssef Squali with Cantor Fitzgerald. Your line is open.

<Q – Youssef Squali – Cantor Fitzgerald Securities>: Thank you very much. Two questions, maybe one for Sheryl and one for Mark. On ad pricing, can you maybe just talk about CPMs for ads in the newsfeed versus ads on the right-hand rail? Can you give us maybe just an idea as to the magnitude of the difference between the two? Was that a big driver for that 21% increase?

And then on video advertising, I was just wondering, what's the strategy to bring video advertising to Facebook and kind of both in the newsfeed on the Desktop initially and then eventually on the Mobile, as soon as there's enough bandwidth for that? Thanks.

<A – David Ebersman – Facebook, Inc.>: This is David. I'll take the first one, which is about CPMs. So the ads that we show in newsfeed are displayed more prominently and they're more in the flow of a user's attention. So as you would imagine, we get more engagement with those ads and they end up commanding a much higher average price per ad, as you would expect.

<A – Sheryl Sandberg – Facebook, Inc.>: Video ads. Yeah, sorry, I'll take the second part. So video is a really exciting area because we have leveraged our scale and engagement and our ability to provide relevant ads. We have a video product out today. Advertisers can embed a video in their page post and we're seeing really strong results. I think both because of that and because of marketers' inherent liking video as a format, we continue to explore new things as well, but we don't have anything to announce today.

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

<Q – Justin Post – Bank of America Merrill Lynch>: Thank you. I guess two questions. First, on ad formats. Sheryl, do you think you really optimize the ad formats, especially on PC, or is there a lot of room you can do to get better performance from that?

And then secondly, maybe you could just give us a business update on Instagram. Maybe you could compare where they are to where Facebook was when you turned on ads, or any thoughts on how you could monetize that platform maybe far down the road? Thank you.

<A – Sheryl Sandberg – Facebook, Inc.>: On the first, I think there's a lot of room to improve our ads. I don't know whether that will take the format of different formats. I think more of it will be in terms of quality, because I think we feel pretty good about our format. But one of the main pushes we have is to make each ad a better experience for users: content in those ads is just as good as

the content they'll see from a friend or anything else on the site; as well as make those higher returns for marketers. And those two go hand in hand. I think the place you will see the most from us is more around targeting, around ability to take the formats we have and make the ad better within those formats, that's certainly our focus now. But as our site evolves and our product evolves, we never rule out changing the format as well.

<A – Mark Zuckerberg – Facebook, Inc.>: Yeah, and on Instagram, they're really doing well, right, and growing really quickly, and I think that that is the right focus for them. And they have this opportunity to capture and basically build off this huge community and I think that that should be 100% of the focus right now. I am really optimistic about the business opportunity there, too. You already have a lot of brand from folks who advertise with Facebook putting content into Instagram, getting huge engagement rates. So people are coming to us and asking for ways to make that even richer and it's something that we're thinking about. But right now, I think that – I'm just really proud of the team and excited about how quickly they're growing. I mentioned this in my comments early on, but they're growing a lot faster now and were faster to get to 100 million than Facebook even was.

Operator: Your next question comes from Gene Munster with Piper Jaffray. Your line is open.

<Q – Gene Munster – Piper Jaffray, Inc.>: Hey, good afternoon. You've seen some acceleration of revenue over the last three quarters, and can you just give us some guidelines in terms of should we continue to see that revenue accelerate? And if not, at some point in the back half of this year or early next year, based on some of the investments and new products, could we see another inflection point in growth? Thank you.

<A – David Ebersman – Facebook, Inc.>: Well, I think we're still in the really early days of what we're doing and it's particularly true in Mobile. A year ago, we didn't have any mobile ad revenue and now it's 30% of our ad revenue. So this is great, we're really pleased with the progress and we still believe that Mobile has the opportunity to be huge for us if we can execute well. We've got a really large Mobile user base, they're very engaged and spend a lot of time with us. We have an ad format that works on mobile and we have identities so that we can put the right ads in front of the right people.

So I think the future for us is, I think, much more interesting than trying to project it from any particular quarter at this point, just because we've got a lot left to do. And obviously, we'll continue to try and develop tools to enable us to monetize our advertising better and potentially in different ways as well. But the big opportunity that's right in front of us is trying to make the Mobile advertising product higher quality and more relevant over time.

Operator: Your next question comes from Ben Schachter with Macquarie. Your line is open.

<Q – Ben Schachter – Macquarie Capital (USA), Inc.>: A couple issues for Mark. I was wondering first if you could talk about the platform strategy, and maybe give some specific examples of third parties that have really been successful. And in general, what are the lessons that you've learned around the platform strategy, how it's evolved?

And then secondly, just around the evolution of Graph Search, any lessons from the launch, positive or negative? Thanks.

<A – Mark Zuckerberg – Facebook, Inc.>: Sure. I mean, one thing that I think has actually gone well with platform recently is the gaming ecosystem. I mean, David was talking about this earlier, but with the exception of our largest partner, Zynga, whose growth hasn't been as awesome as everyone would hope, the rest of the community has actually grown quite well and is quite healthy. And so we're pretty happy with that, and it's a pretty diverse group.

I mentioned in my comments at the beginning, I mean, we're up to I think it's 81 of the top 100 top-grossing iOS apps and 70 the top-grossing Android apps are connected in with Facebook. So we're getting good coverage, and that's always been the vision, is making it so that any app and experience that you have can be social. So that's working well. And also we really want to be a source that developers can come to for distribution, and make it so that they come to Facebook and spread their apps. And people have always had good tools to do that organically, but recently the app install ad product has been another tool in developers' arsenals in order to do that, and that's showing some real traction. So I'm pretty excited about that as well.

Graph Search was your other question, and the strategy around this and kind of where we are in rolling out is, we developed it over a period of time at the company. And we knew that in order to get it to be really good, we had to get some real-world data. So we rolled out to just a small percent of people in order to be able to tune the ranking and all that. And we're getting it to a state where we're really happy with it before we roll it out to everyone. But we're really optimistic that that'll happen over the coming months.

So I'm pretty excited about that. I mean, the people who use it, we've gotten very positive feedback from it, and I think it's going to be a very big opportunity. But the launch wasn't this point where we expected a ton of people to start using it; we gated who can use it quite aggressively in order to just make sure that we get the data that we need. And the real rollout will hopefully start pretty soon.

Operator: The next question comes from Mark Mahaney with RBC. Your line is open.

<Q – Mark Mahaney – RBC Capital Markets LLC>: Thanks. I was wondering if you could talk about engagement per cohort. There's an urban myth that those under 25 are disengaging from Facebook. It's hard for us to see that in, obviously, the data that you report, but you would know that. Is the Mobile engagement, is that offsetting that? Can you talk about that, engagement amongst younger cohorts? And then secondly, you talked about advertising on mobile devices performing well. Could you actually make the statement as to whether it performs as well as Desktop ads do for advertisers on Facebook, similar to, sometimes greater, or sometimes less? Could you compare those two? Thank you.

<A – David Ebersman – Facebook, Inc.>: Sure. So I guess I'd start by saying we remain really pleased with the high level of engagement on Facebook by people of all ages around the world. You asked about people under 25. We continue to have really high penetration rates among that age group, both in the U.S. and globally, and that the younger users remain among the most active and engaged users that we have on Facebook. And then in addition, younger users are extremely active users of Instagram as well. So that's great, and makes our position even stronger.

I think from our standpoint the urban legend you referenced sort of flows more often than not from surveys people have done of younger users that indicate that they're using other social services. And we take this feedback seriously, but our sense is that much of the concern stems from the assumption that this is a zero-sum game and that's not how we see it. We think the overall amount of time spent on services that enable you to connect and share is growing and will continue to grow, because these kinds of services are really engaging and good. And it's great for us to be the leader in a market that's expanding rapidly with the foundation we have with both Facebook and Instagram. And I guess the challenge for us is to just continue building great products that appeal to users of all ages.

Your second question about the engagement levels of the performance of mobile ads. I think it's fair to say that newsfeed ads on both Mobile and Desktop both perform extremely well, and we're pleased with both formats.

Operator: The next question comes from Ken Sena with Evercore Partners. Your line is open.

<Q – Ken Sena – Evercore Partners (Securities)>: Hi. I was just hoping that you could go back to Atlas for a second and maybe give us kind of a sense of maybe the run rate quarter-on-quarter? And is it correct to see Atlas as kind of an avenue into monetizing potential inventory off of Facebook? And how do Home and maybe your Mobile Open Graph kind of tie into that strategy? Thank you.

<A – Sheryl Sandberg – Facebook, Inc.>: Our main focus with Atlas is our own measurement. That being able to measure Facebook ads all the way through to purchase and net compare those in an apples-to-apples way with other ad purchases that you make not on Facebook is really important to drive marketer engagement with us and that's our focus. We have no plans to launch an ad network. We also don't break out – we're not breaking out the revenues from Atlas.

<A – David Ebersman – Facebook, Inc.>: And it's small so Atlas – we didn't buy Atlas for the run rate of its revenues but because we feel like it's a tool that can help us to grow our own business.

Operator: The next question comes from Douglas Anmuth with JPMorgan. Your line is open.

<Q – Douglas Anmuth – JPMorgan Securities LLC>: Thanks for taking the question. Sheryl, you talked about having strong traction with SMBs and also in direct response and app developers and also about sort of Atlas and attribution. But can you help us understand the biggest hurdles that you have right now with big marketers?

And then secondly, David, if you could help us understand the percentage of mobile ads revenue that's coming from mobile app install ads? Thank you.

<A – Sheryl Sandberg – Facebook, Inc.>: There are lots of types of big marketers. There are big marketers out there who are direct marketers. There are also big marketers who are brand marketers and I think most are probably the brand so that's how I'll answer it, even though it's worth noting that there are big advertisers across the spectrum of different types of ad types. As I've said before, the thing about brand advertisers is that they got very used to TV then they got very used to search and we are a third thing. And we will win that business client-by-client, CMO-by-CMO. It's something I personally spend a lot of time on and I think we have a great team in the field [ph] against (49:35)

With some of the big brand advertisers we have been working with them for years and years. A lot of the data and measurement you hear us talking about are studies we've done with them based on campaigns that we've run with. And I think we have a lot of belief at the top and in many of them we're in the process of going through their company and getting that same commitment to buy. So we'll have a CMO who has seen the value, we've proven the value and really wants the company to come along and now we're in the process of working brand-by-brand, region-by-region to get that same buy-in lower in the organization which actually takes more time, not surprisingly. With other brand marketers they're just in a testing phase and they [ph] really (50:14) haven't done enough with us so that we can even do the studies to prove the value. And so the good news for us is we're engaged with all 100 Adage 100, so everyone is buying with us on an annual basis, and we're working client-by-client to bring them along that spectrum.

The good news is I think we're increasingly proving that we can return on ad spend in different parts of the purchase funnel. So to share one recent example, MGM Resorts has used a different suite of Facebook products to address different customers at different parts of the purchase funnel. They offers to acquire new customers and they saw a three times return on ad spend. Then they use FBX to retarget people who were in their booking process and dropped out, and that gave them a 15 times return on ad spend. And then for past guests who had completed a purchase but hadn't come back, they used Custom Audiences to target them to return and they've got a 5 times return. And I think it's experiences like that, where we showed the breadth of what we can do that really move us forward with the brand spenders.

<A – David Ebersman – Facebook, Inc.>: And you asked about mobile app install ads. So we launched that product I think at the beginning of the fourth quarter more broadly, so it's early in its development but really, really doing quite well and we're pleased with both the quality of experiences we're providing and with the revenue growth that we've seen. It really fits in nicely with the idea of putting content into newsfeed that we think will be of interest to users and provide value for developers. And I guess the only other thing I'd note is that it's an incremental audience for us for the most part from an advertising standpoint which is also nice. Some of those developers were advertising with us before, but for a lot of the mobile app install ad purchasers, are new advertisers to Facebook.

Operator: The next question comes from Brian Wieser with Pivotal Research. Your line is open.

<Q – Brian Wieser – Pivotal Research Group LLC>: Thanks for taking the question. First of all, I just wanted to go back into the segments of the advertisers, between the brands, developers, small businesses and performance. Is there any way you can characterize what maybe the growth trends have been, even recognizing some of them blur the lines? Or alternately growth trends between the different ad products? I find it's useful to get a sense of where the relative growth is, that would be useful.

And then the second question, I just want to get updated thoughts on data centers, the role of data centers for Facebook. The degree to which you think that it is strategic investing in and building these out, or if it's really just about operational efficiency? Thank you.

<A – David Ebersman – Facebook, Inc.>: So in terms of the segments it's really hard to break out the revenue because the same advertiser crosses multiple segments with multiple objectives, sometimes with the same ads. So one of the ways we use the segments is to help focus our product development on understanding the different objectives that marketers might have, but then translating that into individual groups of revenue is difficult. I think that, as Sheryl mentioned, we're particularly pleased with small businesses, that's something that we can measure on Facebook and see the number of advertisers increasing.

In terms of data centers, I think it is both strategic and operational. There's no question that owning our own data centers removes sort of another party from the mix relative to when we used to lease data center space. It also enables us to build the data centers to look exactly as we want them to look so that the performance is optimized for precisely what Facebook needs to do with the servers that we put in there, and there's definitely some efficiency that comes from that. But I would also say that it is, given what we're trying to do and the world we're trying to reach, I do think it's strategic for Facebook to not be dependent on third parties to provide that critical part of our supply chain.

Operator: The next question comes from Aaron Kessler with Raymond James. Your line is open.

<Q – Aaron Kessler – Raymond James & Associates, Inc.>: Yes. A couple questions; on the unpublished page post can you just give us an update, I think that got released towards the end of first quarter, maybe what type of traction you're seeing there?

And also just going back to kind of U.S. versus Europe, can you just maybe detail kind of – Europe definitely out-performed U.S. on a sequential basis. Was that due to some of the maybe later adoption of some of the sponsored stories in the newsfeed? Or was that something else? Thank you.

<A – Sheryl Sandberg – Facebook, Inc.>: So on page posts, page post ads first appeared May of last year, and then we just put them into newsfeed in March of 2013. In terms of unpublished, what that just means is the ability to target page posts only to the right people. So for example, without

posting it to everyone on your page. For example, if you're a retailer and there was a snowstorm in one state, you could target snow shovels or other relevant stuff you want to sell for a snowstorm only to ads – only to people in that state. So it's just a really useful ways of segmenting your audience; again, part of our overall push to relevance, targeting and quality.

We're really excited about page post ads. Over 7.5 million posts have been promoted by pages. Over 30% of the people using the product are new advertisers to Facebook. And I think that speaks to one of the earlier questions on small community and businesses and their adoption. If you say to an SMB, do you want to become an advertiser? That's a heavy lift. If you say to them, you have a page, you've posted something, do you want to pay a few dollars to promote this post to reach more people? That is a much easier on-ramp to advertising spend with us and we think it's working really well.

<A – David Ebersman – Facebook, Inc.>: In terms of U.S. and Europe I really don't have a lot more to add; the Europe number, as I said, was strong in Q1. I'm certain it's true that for some of the products that we roll out the U.S. represents the first adopters and then they spread their way to other clients around the world, but I don't have any specific evidence to support that that was key to the trend in Q1.

<A – Deborah Crawford – Facebook, Inc.>: Operator, I think we have time for one last question.

Operator: The next question comes from Daniel Ernst with Hudson Square Research. Your line is open.

<Q – Daniel Ernst – Hudson Square Research, Inc.>: Yes. Good evening. Thanks for taking my call. Two questions if I might. If we look at the broad base of all ad impressions across Facebook, whether it's Desktop or Mobile, can you give us a sense of what percentage of those are generated or conditioned by social statistics or socially relevant data that comes out of the Facebook experience versus ads conditioned by external data like from Acxiom or from re-targeting traffic from other websites? And then second, within the category of apps and other, can you give us a sense of is there any materiality around the other categories or not apps payments, or what part of that might've been Facebook-type services like Gifts? Thank you.

<A – David Ebersman – Facebook, Inc.>: So to your first question on mobile, and I think the question was on mobile app load, is that right?

<Q – Daniel Ernst – Hudson Square Research, Inc.>: No, it was – but whether it was Mobile or Desktop, what part of the -

<A – David Ebersman – Facebook, Inc.>: Sorry, I got lost in the second question, which – I should've written down the first one. So right now you asked about Acxiom and things like that, that's a very small percentage of the ad impressions we show. So hopefully over time we can bring tools to bear that can really increase our ability to do more targeting, or more effective targeting than we do today.

In terms of the second part, I think you're asking about the whole payments and other fees revenue line. So I said the whole line grew by 15%. Games represented 12% growth. So the increment in between the 12% and the 15% came primarily from user promoted posts, which is a product we launched last year, and to a lesser degree also from our Gifts product.

Deborah Crawford, Director of Investor Relations

Great. Thank you for joining us today. We appreciate your time and we look forward to speaking with you again next quarter.

Operator: This concludes today's conference call. You may now disconnect.

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