

# As Facebook grows, expect to see more ads on Instagram (Update)

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In this March 25, 2015, file photo, Mark Zuckerberg talks about the Messenger app during the Facebook F8 Developer Conference in San Francisco. Facebook reports quarterly financial results on Wednesday, Nov. 4, 2015. (AP Photo/Eric Risberg, File)

If you're starting to notice more ads on Instagram, it's all part of Facebook's plan.

Facebook, the world's largest social network, has steadily built its advertising business to become the world's second-largest digital ad platform after Google. Now it's looking at ways to make more money from video ads and from newer services like Instagram, the mobile photo-sharing app that it bought for \$1 billion in 2012.

Instagram recently announced it has over 400 million monthly users, surpassing the 300 million who use the rival social networking site Twitter. While Facebook has been introducing Instagram ads slowly—to avoid irritating users by overloading them with commercial messages—the company said in September that it would allow more kinds of ads, including longer video spots, on the photo-sharing service.

With those new formats, Instagram could produce more than \$250 million in revenue for the current quarter, Evercore ISI analyst Ken Sena estimates. Businesses will spend about \$600 million on Instagram ads this year—and nearly \$1.5 billion in 2016, according to research firm eMarketer.

"When we talk to advertisers and ad agencies, they're very interested in Instagram," said eMarketer analyst Debra Aho Williamson.

One reason: In recent years, there's been a debate over whether teens and young adults are forsaking Facebook in favor of newer, trendier online services. But Williamson said young adults are "very visually focused and pretty heavy users of Instagram."

Facebook doesn't disclose how much of its revenue comes from Instagram. The company beat Wall Street estimates on Wednesday by reporting third-quarter net income of \$891 million, on revenue of \$4.5 billion. Profit was up 11 percent, while revenue grew 40 percent from the same period a year earlier.

More than 1.55 billion people now visit Facebook at least once a month, up 14 percent from a year ago. Daily users increased by 17 percent, to 1.1 billion. As in previous quarters, Facebook said a majority of users are visiting Facebook on mobile devices, and mobile ads contributed 78 percent of the company's ad revenue.

Those results drove Facebook's stock up more than 3.5 percent in late trading, after shares closed Wednesday at \$103.94.

Facebook has seen continued growth in revenue and users over the last three years, but the company is growing more slowly as it gets bigger. That's led it to consider new ways of showing advertising.

Facebook is also increasingly introducing new ways for its users to share and watch video on the social network, positioning itself against Google's popular YouTube service. CEO Mark Zuckerberg told analysts Wednesday that Facebook users are now watching more than 8 billion video clips a day on the site, up from 4 billion in April. (Facebook counts any clip played for at least 3 seconds as a "view.")

Analysts say Facebook has huge, untapped potential in both video and its growing stable of apps and services, many of which operate separately from the main social network. That includes Instagram, the WhatsApp messaging app and Oculus VR, which makes virtual reality gear.

More than 800 million people are now using WhatsApp, the messaging app Facebook bought for \$19 billion in 2014, and another 700 million people use the Messenger service that Facebook developed internally.

While the company hasn't spelled out plans to make money from those apps, chief financial officer David Wehner told analysts Wednesday that he's confident "there are going to be opportunities" in the future.

Zuckerberg also cautioned that it will take time for virtual reality technology to gain wide adoption. But chief operating officer Sheryl Sandberg stressed Instagram's more immediate potential during the company's quarterly earnings call.

For advertisers, she boasted, Facebook and Instagram are the "two most important mobile platforms out there." Instagram offers advertisers the same targeting and measurement capabilities they can get with ads on Facebook, she added.

Facebook still handles less advertising than Google, its biggest rival, but its share of global spending on digital ads is growing, according to eMarketer. The firm estimates Facebook's share will be 9.6 percent this year, up from 8 percent last year, while Google's will drop from 32 percent last year to 30.4 percent this year.

Experts caution that Facebook must be careful as it introduces new kinds of advertising, so it doesn't overwhelm or annoy users. The company worked closely with advertisers to make sure the first ads on Instagram "met a high bar" for aesthetics and creativity, Williamson said. Still, she said she's recently seen "a couple of duds."

Sandberg acknowledged that concern, telling analysts the company is monitoring the quality of ads closely.

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