

Facebook shares sink to new low after 2Q results (Update)

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(AP) — Facebook's stock hit a new low Friday after it reported lukewarm second-quarter results and didn't give an outlook for the coming months.

The stock fell \$3.83, or more than 14 percent, to \$23.02 in morning trading Friday. Facebook Inc.'s initial public offering of stock priced at \$38, and its low had been \$25.52, hit on June 6. The stock is now about 39 percent below its IPO price.

Facebook issued its first financial report as a public company after the market closed Thursday. The company reported slightly stronger-than-expected revenue and a gain in user numbers, but investors weren't impressed.

Although revenue grew 32 percent in the second quarter, growth has slowed from earlier this year and from previous years. That's a concern for a newly public company. Investors are willing to value new companies highly, even if they are not making a profit, because they expect booming revenue.

Baird's Colin Sebastian also pointed out that the company is spending more on technology and hiring, driving up expenses.

But he's not overly concerned. He backed his "Outperform" rating for Facebook, saying advertising revenue was better than expected and the company is improving its ability to make money from users who access

Facebook from apps on their phones and tablet computers.

Other analysts remained positive, too. Of 27 analysts available from FactSet, 15 have "Buy" ratings or equivalent, while just three are a "Sell." Analysts tend to have longer-term views of stocks than many day-to-day investors.

Mobile and users in developing countries are driving growth in active monthly users, Sebastian said. Facebook had 955 million active monthly users as of June 30, up 29 percent from a year ago.

"We don't view these results as dramatically good or bad," said Citi analyst Mark Mahaney. "Key questions remain: the future of Facebook mobile monetization and the future of Facebook user engagement."

Analysts also cautioned that the stock could be volatile because Facebook didn't offer investors and financial analysts its outlook for the rest of the year.

Overall the company reported a loss of \$157 million, or 8 cents per share, in the April-June period, mainly because of compensation expenses it incurred when it paid \$1.3 billion in restricted stock and related taxes for employees as part of the IPO. The loss compared with earnings of \$240 million, or 11 cents per share, in the second quarter a year ago.

The company's adjusted earnings of \$295 million, or 12 cents per share, matched Wall Street's expectations.

Facebook's revenue of \$1.18 billion was slightly higher than the \$1.16 billion expected by analysts surveyed by FactSet.

The results came two months after Facebook's stock flopped on its first

trading day, on May 18. The day began with glitches with the Nasdaq Stock Market that delayed trading by half an hour. It didn't get much better from there. Despite months of hoopla that had investors thinking it would soar, the stock closed just 23 cents above its \$38 IPO price. It has not reached that level since.

Investors were holding out hope that Facebook would far exceed expectations — even though the company effectively warned investors before its IPO that Wall Street's expectations were too high. In a filing issued a week before its IPO, for instance, Facebook said its mobile users are growing at a faster pace than the number of ads on its mobile platform.

Analysts took that as a sign that their estimates were out of whack and many of them reduced their estimates for Facebook's projected revenue and earnings.

Even though the number of people who use mobile devices and tablet computers to access Facebook had been growing fast, Facebook didn't start showing ads on its mobile app until this spring. Facebook had 543 million active monthly mobile users at the end of the quarter, a 67 percent increase from a year earlier.

In a conference call with analysts Thursday, CEO Mark Zuckerberg said Facebook's mobile users are more active than those who use the personal computer version.

"On average mobile users are around 20 percent more likely to use Facebook on any given day," he said. "So mobile not only gives us the potential to connect more people with our services and also gives us the ability to provide more value and more deeply engaging experience."

Facebook said its revenue from advertising totaled \$992 million, a 28

percent increase from the same quarter last year. That number accounted for 84 percent of total revenue. The company did not say what portion was from mobile advertising. The rest came from payments and other fees, money Facebook makes from Zynga games and other apps.

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