

Facebook's day of reckoning: 2Q earnings report

July 25 2012, by BARBARA ORTUTAY



This May 11, 2012 file photo, shows workers at the Facebook office in Menlo Park, Calif. The company plans to release its earnings on Thursday, July 26, 2012. (AP Photo/Jeff Chiu, File)

(AP) — It's showtime for Facebook. Call it the second act after its rocky initial public offering two months ago. On Thursday, the company will take the spotlight once again to announce its first earnings report as a public company.

Facebook's fate hinges on its ability to convince businesses that the ads on its website and on its mobile application are effective. To do that, the world's largest online social network needs to keep its nearly 1 billion users logging on as often — and for as long— as possible, interacting with each other as well as with brands.

The release of its quarterly financial results will be Facebook's chance to prove to investors that it can continue growing revenue from the ads it serves on its wildly popular social networking site.

Though there's a lot riding on its second-quarter earnings report — Wall Street analysts aren't expecting big surprises. Why? Facebook effectively warned investors before its IPO that Wall Street's expectations were too high. In a filing issued a week before its IPO, Facebook said its mobile users are growing at a faster pace than the number of ads on its mobile platform.

As a result of that disclosure and others, many analysts reduced their estimates for Facebook's projected revenue and earnings.

On average, analysts are expecting Facebook to post earnings of 12 cents per share on revenue of \$1.16 billion, according to a poll by FactSet. In all of 2011, it had net income of \$1 billion and revenue of \$3.71 billion, according to regulatory filings.

Facebook, the company founded by Mark Zuckerberg in a Harvard dormitory in 2004 takes another important step in its evolution into a multi-national company with thousands of employees. Facebook went public on May 18, a Friday that capped the worst week for the U.S. stock market this year. After months of hoopla, Facebook saw its stock land with a thud, its debut marred by Nasdaq glitches that delayed trading.



This Friday, May 11, 2012 file photo shows a worker in the Facebook office in Menlo Park, Calif. The company plans to release its earnings on Thursday, July 26, 2012. (AP Photo/Jeff Chiu)

Company-watchers will be scrutinizing the way in which it conducts its first public financial release. Will Zuckerberg host the entire conference call with analysts— or simply say a few words before letting company's financial team explain how the quarter unfolded? Among the call's other likely participants: Chief Operating Officer Sheryl Sandberg and finance chief David Ebersman.

Wedbush analyst Michael Pachter believes it's unlikely Facebook will miss Wall Street's estimates. He added that the banks that led Facebook's IPO likely advised the company to beat expectations for its first public quarter, something that became more achievable once estimates declined.

Facebook makes the bulk of its money from advertising. Because people share so much about themselves on the social network — from hobbies to birth announcements — Facebook's bet is that it can offer highly targeted ads that people are likely to be interested in. The company also uses people's personal relationships to target advertisements. The assumption is that people will be more interested in products and

services that their friends like.

A smaller chunk of Facebook's revenue comes from its payments service, the system third-party developers such as game company Zynga Inc. use to charge fees for games and other content on the site. Facebook takes a portion of the money users pay, usually 30 percent.

Besides revenue growth, what Facebook says about user numbers will be important. Not just how many people use the site, but how often and for how long. Facebook has 901 million monthly active users and 526 million daily active users, according to its latest filings. Each month, 488 million users accessed Facebook using a mobile device.

Investors and analysts who follow the [earnings report](#) will want to hear how the company can make money from its fast-growing mobile user base.

"The specific challenge for Facebook is that it is only just now starting to try to monetize this mobile usage," said Citi Investment Research analyst Mark Mahaney in a note to investors. Facebook's current plan, he notes, is to insert so-called "sponsored stories" — ads into people's mobile feeds. The ads are based on friends' activities.

"But it is very unclear how this will play out, how users will react to changes to what has been an ad-free mobile experience to date, and whether these ads will be effective on mobile devices," the analyst wrote.

It's unclear if Facebook will offer its outlook for the current quarter and beyond. Not all companies do. Apple does, while Google Inc. doesn't and never has. If Facebook does provide a forecast, Pachter thinks it will be conservative. The company has no reason to anger investors who have already pushed its stock down 24 percent from its \$38 IPO price.

[Facebook](#) will report its earnings on Thursday after the stock market closes. It will hold a conference call to discuss the earnings at 5 p.m. ET.

On Wednesday, the Menlo Park, Calif.-based company's stock closed up 89 cents at \$29.34. The stock has traded between \$25.52 and \$45 since going public. It has not risen above \$38 since its first trading day.

Copyright 2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Facebook's day of reckoning: 2Q earnings report (2012, July 25) retrieved 24 April 2024 from <https://phys.org/news/2012-07-facebook-day-reckoning-2q.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.