

# Privacy fears weigh on Facebook with earnings ahead

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Facebook reports results for the first quarter as the huge social network grapples with a privacy scandal

Facebook reports quarterly results Wednesday as it grapples with a data privacy scandal that strikes at how the huge social network makes money

from what it knows about people.

The earnings release comes just two weeks after Facebook co-founder and chief executive Mark Zuckerberg faced questioning in two congressional panels about revelations that personal data was harvested on 87 million users by Cambridge Analytica, a consultancy working for Donald Trump's 2016 campaign.

Whether the scandal is taking a toll on membership or advertising at the online social network was not likely to be revealed in earnings numbers from the first three months of this year, but hints might be found in the company's financial forecast.

Using information about people's lives to target advertising is a standard internet business model, and any effort to rein it in could ripple through the industry.

A freshly released eMarketer report downplayed the threat that the scandal could cause an exodus from Facebook.

"Facebook is so large that it would take a lot of user defections to make a difference," eMarketer principal analyst Debra Aho Williamson said in the report.

But Williamson said some of Facebook's momentum was already fading due to other factors such as disinformation, social media fatigue and new platforms attracting young people.

"Facebook has already essentially maxed out its penetration in the US," she said.

## **Stormclouds gathering?**

Zuckerberg has said he sees no major impact on Facebook's business from the privacy controversy.

Yet some analysts say Facebook's stunning growth pace of recent years, which has vaulted it to the top ranks of players in digital advertising, may be threatened.

An eMarketer report last month said the so-called "duopoly" of Google and Facebook would capture 56.8 percent of the US digital ad market this year, compared with 58.5 percent last year, as rivals like Amazon and Snapchat experience faster-than-expected growth.

Brian Wieser of Pivotal Research Group said in a recent report that he sees "downside from the Cambridge Analytica episode" for Facebook, which relies on advertising for most of its revenues.



Facebook CEO Mark Zuckerberg told lawmakers he does not oppose the idea of regulation of social networks if it is done right

"Our guess is that reduced trust in the platform paired with increasing awareness of toxicity of the platform... could mean ongoing erosion of usage throughout 2018," he said.

Mark Mahaney of RBC Capital Markets said in a note to investors that the financial outlook for Facebook is unchanged for now but that "the very recent negative publicity may have removed 'upside' ad revenue opportunities and likely added uncertainty around user engagement and growth."

## **Regulators take aim**

Facebook also faces a specter of regulation at home and abroad.

Two US senators introduced legislation Tuesday aimed at better protecting online privacy in response to the Facebook data scandal.

The "Social Media Privacy and Consumer Rights Act" introduced by Republican Senator John Kennedy and Democrat Amy Klobuchar would require terms of service agreements to be in plain language, and enable users to see what information about them has already been collected and shared.

"I don't want to hurt Facebook, and I don't want to regulate them half to death, either," Kennedy said in a statement.

"But I have a job to do, and that's protecting the rights and privacy of our citizens."

Facebook announced last week it would begin rolling out changes to how it handles private data to comply with forthcoming EU rules, with European residents seeing the measures first.

Meanwhile, the California-based company has opposed calls by Australian media companies for digital platforms to be regulated, amid an inquiry into their impact on competition in news and advertising markets.

The European Parliament last week demanded Zuckerberg appear in person to answer questions about the Cambridge Analytica scandal, rejecting his offer to send a more junior executive in his place.

The EU is introducing tough new data protection rules, which Facebook has said it will comply with.

The EU's General Data Protection Regulation (GDPR), which comes into effect on May 25, aims to give users more control over how their personal information is stored and used online, with big fines for firms that break the rules.

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