

Facebook faces a day of reckoning, at least on Wall Street

July 26 2018, by Barbara Ortutay



In this March 29, 2018, file photo, the logo for Facebook appears on screens at the Nasdaq MarketSite in New York's Times Square. Facebook's user base and revenue grew more slowly than expected in the second quarter of 2018 as the company grappled with privacy issues, sending its stock tumbling after hours. (AP Photo/Richard Drew, File)

There's a scratch in Facebook's Teflon coating.

The social network's user base and [revenue](#) grew more slowly than expected in the second quarter as the company grappled with [privacy](#) issues, sending its stock tumbling after hours.

The company also warned that it expects revenue growth to decelerate in the next couple of quarters as it promotes new, and for now less profitable, products— such as its Stories disappearing message feature. It is also allowing users to make "more choices" around data privacy amid public outcry and regulatory pressures.

The earnings covered the company's first full quarter since the Cambridge Analytica privacy scandal erupted. But analysts attributed the user growth shortfall largely to European privacy rules that went into effect in May, not to the furor over the political consulting firm with ties to President Donald Trump, which improperly accessed the data of tens millions of Facebook users.

With an hour before trading began Thursday, shares had plunged more than 19 percent, plucking about \$17 billion in net worth out of the pocket of Facebook founder Mark Zuckerberg.

Still, the results suggest that Facebook may have weathered the scandal without major harm to its business, even if its public image has taken a hit. While revenue fell short of Wall Street estimates, it did so by only about 1 percent; profits, meanwhile exceeded forecasts.

But Facebook continues to grapple with big existential questions, ranging from its users' privacy to tech addiction to how it deals with fake news and misinformation, hate speech and extremism on its service.

At times, it has seemed as though Facebook can't quite decide where its values really lie. For instance, it continues to straddle the line between policing what users say and remaining a neutral platform in an

increasingly divided world, and between protecting privacy while collecting as much information on its users as possible.

Facebook had 2.23 billion monthly users as of June 30, up 11 percent from a year earlier. Analysts were expecting 2.25 billion, according to FactSet. User growth—both on a monthly and daily basis—was flat in the U.S. and the rest of North America, while it declined slightly in Europe.

Facebook has largely saturated in the U.S. and Western European markets, and is now looking to countries such as Brazil, India and Indonesia for new users. Revenue from these regions, however, is far below what Facebook rakes in from the U.S. and Europe.

The company earned \$5.1 billion, or \$1.74 per share, up 31 percent and above analysts' estimates of \$1.71.

But revenue—up 42 percent to \$13.23 billion— was slightly below the \$13.34 that Wall Street was expecting.

Facebook said the European privacy rules, called General Data Protection Regulation, or GDPR, did not have a big effect on the quarter's revenue, but also noted that they were only in effect for about a month before the quarter ended.

Over the long term, GDPR may end up favoring Facebook and other large companies that have the resources to adapt to new requirements. They could similarly disadvantage smaller, lesser known companies that don't have the resources to comply and which could face big fines if they don't.

One bright spot for Facebook has been Instagram, the photo-sharing app it bought for \$1 billion in 2012. Instagram now has more than 1 billion

users, and analysts expect it to be a model for how Facebook molds its other big app purchase, WhatsApp, into a lucrative business. So far, WhatsApp doesn't show ads, and its founders Jan Koum and Brian Acton left Facebook amid disagreements over advertising and other issues.

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