Mobile ads help grow Facebook's 1Q revenue 38 pct.

1 May 2013, by Barbara Ortutay

In this Thursday, April 4, 2013, photo, Michael Goodwin, Senior Partner for HTC, displays an HTC First cell phone wit the new Facebook interface at Facebook headquarters in Menlo Park, Calif. Facebook's net income and revenue grew in the first quarter of 2013, helped by an increase in mobile ad revenue, a figure that some skeptical investors have been watching closely. Facebook Inc. said Wednesday that its net income was $219 million, or 9 cents per share, in the January-March period. (AP Photo/Marcio Jose Sanchez)

A year ago, Facebook was just testing the waters of mobile advertising, causing plenty of headaches for investors ahead of its massive initial public offering. It has since eased those worries.

On Wednesday the world's biggest social networking company said nearly a third of its advertising revenue came from mobile in the first three months of the year, helping to push total revenue up 38 percent to surpass Wall Street's expectations.

"They are making the transition to mobile faster than anyone anticipated," said Sterne Agee analyst Arvind Bhatia. "It seems like they are delivering."

Facebook Inc. said Wednesday that its net income was $219 million, or 9 cents per share, in the January-March period. That's up from $205 million, or 9 cents per share, in the same period a year ago, when it was still private.

Revenue grew to $1.46 billion from $1.06 billion, above analysts' expectations of $1.44 billion.

Excluding special items, mainly related to stock compensation expenses, Facebook earned 12 cents per share, matching the average of analyst expectations, according to FactSet.

Menlo Park, California-based Facebook said that its mobile advertising revenue was 30 percent of its total ad revenue in the first quarter, amounting to $375 million. That's up from 23 percent, or $306 million, in the fourth quarter. In the third quarter—the first time it disclosed such figures—the company generated 14 percent, or $153 million, of its advertising revenue from mobile.

Investors had been worried about Facebook's ability to grow mobile revenue since before its initial public offering in May 2012. That's because although the number of people who access Facebook on smartphones and tablet computers has been growing quickly, Facebook didn't begin showing ads to those users until last year.

David Ebersman, Facebook's chief financial officer, said most advertisers did not specify that their ads be shown only on desktop computers or only on mobile devices, "rather they put their ads into our system and allow us to show the ads on whatever device where the ads will perform best."

Bhatia thinks Facebook will fare even better on mobile devices once Zuckerberg firms up its plan to make money from the growing audience checking into Instagram, a photo-sharing service that the company bought last year for $521 million. The analyst believes Instagram will play a bigger role in

Facebook's business next year.

Wedbush analyst Michael Pachter said the results are likely to quiet skeptics who doubted Facebook's ability to mine its growing mobile traffic for revenue. He was particularly impressed by the 23 percent increase in Facebook's mobile ad revenue, even though the company's overall ad revenue for the period dipped 6 percent from the final three months of last year.

"Their mobile business is probably bigger than any mobile business on the planet other than the (wireless telecommunications) carriers and Google," Pachter said.

Facebook started showing mobile advertisements in early 2012. In the third quarter of last year, the company generated 14 percent, or $153 million of its advertising revenue from mobile. In the fourth quarter mobile ads represented to 23 percent, or $306 million.

Research firm eMarketer says Facebook's share of the U.S. online advertising market is growing. This year, the company is expected to take a 6.5 percent share of U.S. online ad spending, up from 5.9 percent in 2012. Still, that figure is far behind Google Inc.'s 41.6 percent.

On the mobile front, eMarketer expects Facebook to take a 13.2 percent share of U.S. ad revenue, up from 9.5 percent in 2012, the first year it made any money from mobile ads. Though Facebook is No. 2, it is far behind Google in U.S. mobile advertising. EMarketer expects the online search leader to take a 54.7 percent share of U.S. mobile advertising revenue this year.

The company also grew its user base during the quarter. This has also been an area of some concern to investors amid chatter of "Facebook fatigue," especially among younger users, surfacing in recent months. But Facebook said its monthly user base grew to 1.11 billion accounts as of the end of March, up 5 percent from 1.06 million at the end of December.

The number of users who access Facebook every day, on average, grew 8 percent to 665 million in March, from 618 million in December.

Gartner Inc. analyst Brian Blau said the ongoing growth of daily users suggests that the service is a tough habit to break.

"The network remains in full force," Blau said. "You have to give them a lot of credit."

That doesn't mean there won't be concerns about some Facebook users, especially teenagers, migrating to other mobile applications and digital outlets to hang out with friends and share slices of their lives, said Forrester Research analyst Nate Elliott.

"There is always going to be something new in social," Elliott said. "The question is how much of it is a threat to Facebook? All Facebook can do is keep those users coming back and make money off those users. And Facebook seems to be doing both of those things reasonably well."

Instagram now has 100 million monthly users, up from 22 million when Facebook agreed to buy the company in April 2012.

Facebook's stock rose 12 cents to $27.55 in after-hours trading. The stock closed down 34 cents on Wednesday. It is up 3 percent since the beginning of the year compared with an 11 percent increase for the Standard & Poor's 500 index. Facebook went public on May 18, 2012, at $38 per share, a price it hasn't hit since.

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