

Facebook's advertising revenue soars in 3Q

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In this June 11, 2014 photo, a man walks past a mural in an office on the Facebook campus in Menlo Park, Calif. Facebook reports quarterly earnings on Tuesday, Oct. 28, 2014. (AP Photo/Jeff Chiu)

Facebook grew its advertising revenue by 64 percent in the third quarter, helped by a boost in mobile ads that are becoming an increasingly large chunk of the social networking giant's overall advertising business.

The steady increase indicates that Facebook has succeeded in steering advertisers to its mobile platform at a time when most of its users are using Facebook on phones and tablets. Investors were initially worried about the desktop Web era-born company's ability to succeed in mobile advertising, but those concerns are long gone.

Though Facebook's results surpassed expectations, investors sent the company's stock down sharply not long after the results came out, possibly spooked by comments during a conference call that 2015 will be a "significant" year for expenses. The company said it expects costs to grow by 55 percent to 75 percent next year as it ramps up investment in its work force, growing existing products and new areas such as WhatsApp, Oculus and video.

This year, Facebook spent \$22 billion in cash and stock to buy the messaging service WhatsApp and about \$2 billion to buy the virtual reality company Oculus.

The Menlo Park, California-based company's stock fell nearly 11 percent in extended trading. Daniel Morgan, a portfolio manager at Synovus Trust Company, who focuses mostly on technology stocks, was surprised by the downturn.

"Unless there is something I am missing, I didn't see anything in the report that would cause any concern," he said, adding that the only thing he can think of is that the stock has done so well that expectations were extra high, and while Facebook did better than expected, they didn't blow it out of the water.

"Maybe it's just not enough to answer the Street's desire to have unbelievable numbers," he said. "It's kind of a scratch your head kind of situation."

Advertising revenue at the company totaled \$2.96 billion. Mobile ad revenue, a closely watched figure, was \$1.95 billion, or 66 percent of Facebook's total advertising revenue for the quarter. That's up from 62 percent in the second quarter and 59 percent in the first three months of the year. The 10-year-old company began offering mobile ads in 2012.

Now, Facebook is expanding into highly lucrative video ads, and earlier this year re-launched Atlas, a tool for marketers to better target people across "devices, platforms and publishers" and to measure how well the ads work.

The Atlas move and the acquisition of LiveRail, an online video advertising platform signal that an "important shift is under way at Facebook," says Debra Aho Williamson, an analyst at research firm eMarketer. Facebook is "becoming much more ambitious in offering digital services far beyond what the company was initially created to do as a social network."

The company has been on a roll lately, and its stock hit an all-time high of \$81.16 on Tuesday before the results came out. That's more than double its initial public offering price of \$38. Both the troubled IPO and the company's lagging stock price seem like a distant memory. Still, Facebook has had to be vigilant in attracting new users, especially outside the U.S., and ensuring that existing members return day after day.

Facebook had 1.35 billion average monthly users as of Sept. 30, an increase of 14 percent from a year earlier. Daily users totaled 864 million, up 19 percent. Mobile monthly active users, meanwhile, were 1.12 billion, up 29 percent from a year earlier.

While Facebook has been growing its share of the worldwide digital advertising market, it's still a long way from catching up to rival Google Inc. In 2013, Facebook had a nearly 6 percent share of the market compared with Google's 32 percent, according to eMarketer. This year, Facebook is expected to grow its slice to nearly 8 percent, while Google's should decline slightly, to just below 32 percent.

Overall, Facebook's earnings nearly doubled to \$802 million after paying preferred dividends, or 30 cents per share. Revenue rose 59 percent to \$3.2 billion. Adjusted earnings and revenue both beat Wall Street's estimates.

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