

Facebook profit dips as expenses bite into revenue

July 29 2015



In this June 11, 2014, file photo, a man poses for photographs in front of the Facebook sign on the Facebook campus in Menlo Park, Calif. Facebook reports quarterly financial results on Wednesday, July 29, 2015. (AP Photo/Jeff Chiu, File)

Facebook reported a dip in its quarterly profit Wednesday but said revenues surged on mobile advertising gains, as its user base neared 1.5 billion.

The world's biggest social network saw higher expenses cut into its bottom line, as it invests in new technologies and seeks to build a "family" of applications.

Net profit for shareholders dropped nine percent from a year earlier to \$715 million.

But total revenues surged 39 percent to \$4.04 billion on big gains from advertising, chiefly from paid messages delivered to mobile devices.

Facebook like other global companies was hurt by the rising dollar, saying that revenues would have been up 50 percent without the impact of currency changes.

Monthly active users grew 13 percent from a year ago to 1.49 billion, but the gain was modest from the first quarter when it had 1.44 billion. The number of mobile active users rose to 1.31 billion.

"This was a good quarter for us," said Facebook founder and chief executive Mark Zuckerberg on a conference call on the results.

"We have continued to make good progress in the growth of our community."

Amid ongoing growth in Facebook, the company has been expanding its offerings of applications, including the photo-sharing service Instagram, the messaging service WhatsApp and virtual reality gearmaker Oculus.

Facebook's capital spending in the quarter was \$549 million. Its research and development costs were \$1.17 billion.

Overall expenses were up 82 percent, driven in large part by stock compensation linked to its multibillion-dollar acquisition of WhatsApp.

Ad revenues accelerate

The big gains in revenue came from advertising, up 43 percent from a year ago.

Mobile accounted for 76 percent of ad revenues in the quarter, up from 62 percent a year earlier and 73 percent in the first three months of the year.

Facebook shares dipped 2.2 percent to \$94.85 in after-hours trade following the results, even though most of the figures were ahead of market expectations.

Facebook shares have been hovering near record highs in recent weeks.

Analysts have said the newly acquired services such as Oculus and Instagram are not delivering meaningful revenues now, but could build a base for future growth.

"Our main focus is on helping our existing communities and businesses reach their full potential," Zuckerberg said.

Facebook itself has been a rising star in online advertising.

It accounted for 7.9 percent of worldwide digital ad revenues in 2014, up from 5.8 percent in 2013, according to the research firm eMarketer, which predicts its share will reach nine percent by the end of this year.

Chief operating officer Sheryl Sandberg said a big growth area for Facebook advertising was video ads, helped by Facebook's technology that allows marketers to get information on who is viewing the ads and how many are responding by buying the products they see.

"Video ads are a natural part of the Newsfeed experience," she told the call. "And we can do targeting in a way that is really unique."

In one example, Sandberg said the hamburger chain Wendy's was able to deliver specific video ads to young Facebook users or "millennials" who liked spicy foods.

Instagram has only recently begun to deliver advertising, and eMarketer expects the service to take in \$595 million this year and \$2.8 billion by 2017.

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