

# Facebook's reality check sends stock reeling

26 July 2018, by Rob Lever



Facebook CEO Mark Zuckerberg said investments in safety and security will hurt short-term profits

It has turned into a brutal reality check for Facebook.

The social network star—which had weathered storms over privacy and data protection—is now looking ahead at a cloudier financial future that threatens to end its years-long breakneck growth pace.

Shares in Facebook plummeted 19 percent to \$175.30 in early trade Thursday, wiping out some \$100 billion—believed to be the worst single-day evaporation of market value for any [company](#).

The plunge came one day after the company missed revenue forecasts for the second quarter and warned that growth would be far weaker than previously estimated.

Chief financial officer David Wehner warned Wednesday in an earnings call with analysts that revenue growth had already "decelerated" in the second quarter and would drop "by high single digit percentages" in coming quarters.

At one point during the call, Facebook shares were trading down as much as 24 percent, an unprecedented drop for a large firm.

On the call, Jefferies & Co. analyst Brent Thill said that "many investors are having a hard time reconciling that deceleration... It just seems like the magnitude is beyond anything we've seen."

Facebook said the slowdown will come in part from a new approach to privacy and security, but also appeared to acknowledge the limits of growth in advertising, which accounts for virtually all its revenue.

## More humans needed

Richard Windsor, a technology analyst who writes the Radio Free Mobile blog, said the new outlook should not be surprising.



Some analysts say Facebook cannot maintain its growth pace after becoming so large

"This is a direct result of scale as it becomes increasingly difficult to grow at such high rates when a company hits this size," Windsor wrote.

Windsor added that Facebook is forced to hire more people to handle tasks such as filtering inappropriate content after discovering the limits of artificial intelligence.

"Weaknesses in AI are forcing (Facebook) to keep hiring humans to do the jobs that the machines are incapable of," he said.

Brian Wieser at Pivotal Research Group said the company appears to have hit a "wall" on growth in advertising.

In a research note, he said Facebook's outlook "suggests that while the company is still growing at a fast clip, the days of 30 percent-plus growth are numbered."

### **Has social media peaked?**

Until Wednesday, Facebook shares had been at record highs as investors seemed to shrug off fears about data protection and probes into the hijacking of private information by the political consultancy Cambridge Analytica.

For the second quarter, profit was up 31 percent at \$5.1 billion; revenues rose 42 percent to \$13.2 billion, only slightly below most forecasts.

Facebook reported its user base was still growing but not as fast as some expected. Monthly active users rose 11 percent to 2.23 billion, below most estimates of 2.25 billion.

Chief executive Mark Zuckerberg said Facebook has invested heavily in "safety, security and privacy" after being rocked by concerns of manipulation of the platform to spread misinformation, warning of an "impact" on profitability.



Facebook sharply reduced its growth outlook, but some analysts say the company is being overly conservative

Ross Gerber, an analyst at Gerber Kawasaki, said the latest figures suggest that the tide may be turning for Facebook and other social networks.

"Social Media has peaked," Gerber said on Twitter. "We told you last qtr and now we're seeing it."

### **Not so fast**

Some analysts however said it was too soon to write off Facebook or its growth prospects, and that the company may have simply been warning of the worst-case scenario.

"The company has a track record of resetting [revenue growth](#) and expense expectations only to turn around and exceed those expectations the following quarter," said Gene Munster of Loup Ventures.

"We suspect Facebook is sticking with its historical playbook and will, in fact, beat these lower numbers."

Richard Greenfield of BTIG Research said he remained upbeat on Facebook despite the abrupt forecast shift.

"Facebook is actively choosing to make less money, deprioritizing near-term monetization to drive engagement to even higher levels,"

Greenfield said in a note to clients.

Greenfield said he could "sense the fear/panic in investors' voices" after the Facebook analyst call but that he has maintained his outlook.

"Mobile is eating the world and Facebook is a core holding to benefit from that shift," he said.

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