

Facebook's first public quarter proves solid

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Facebook's first earnings report as a public company had solid numbers, but in the end it landed with a thud — much like its rocky initial public offering two months ago.

Facebook reported stronger-than-expected revenue and a gain in user numbers Thursday. But investors weren't impressed and after a brief spike, its stock tumbled. Stock fell nearly 9 percent, or \$2.38, to \$24.47 in after-hours trading. It had closed down 8.5 percent, or \$2.50, at \$26.84.

"They didn't break any banks," said Debra Aho Williamson, an analyst at research firm eMarketer. "They did not come out any better than anybody had expected."

Even so, Facebook Inc. said revenue grew 32 percent to \$1.18 billion from \$895 million a year ago.

Adjusted earnings of \$295 million, or 12 cents per share, matched Wall Street's expectations.

Analysts, on average had expected slightly lower revenue of \$1.16 billion, according to FactSet.

Facebook said it had 955 million active monthly users as of June 30, up 29 percent from a year earlier.

Overall the Menlo Park, California-based company posted a loss of \$157 million, or 8 cents per share in the April-June period, mainly due to compensation expenses it incurred when it gave employees \$1.3 billion in restricted stock and related taxes as part of the IPO. The loss compared with earnings of \$240 million, or 11 cents per share, in the second quarter a year ago.

The results come two months after Facebook's stock flopped on its first trading day, on May 18. The day began with glitches with the Nasdaq stock market that delayed trading by half an hour. It didn't get much better from there. Despite months of hoopla that had investors thinking it would soar, the stock closed just 23 cents above its \$38 IPO price. It has not reached that level since.

Though Facebook had a lot riding on its first public report, Wall Street's outlook was muted, which could be a reason for the stock's decline.

Investors were likely holding out hope that Facebook would far exceed expectations — even though the company effectively warned investors before its IPO that Wall Street's expectations were too high. In a filing issued a week before its IPO, for instance, Facebook said its mobile users are growing at a faster pace than the

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number of ads on its mobile platform.

Analysts took that as a sign that their estimates were out of whack and many of them reduced their estimates for Facebook's projected revenue and earnings.

That said, Facebook didn't start showing ads on its mobile app until this spring. While it's true that it was late to the game — after all, its mobile user base is growing fast — it doesn't mean it won't be able to grow mobile advertising revenue in the future.

Overall, Facebook said its revenue from advertising totaled \$992 million, a 28 percent increase from the same quarter last year. That number accounted for 84 percent of total revenue. The company did not say what portion was from mobile advertising.

The company did not provide an outlook in its earnings press release — another possible reason for investors' disappointment.

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