

Facebook Shares Jump as Rising Sales Silence Mobile-Ad Skeptics
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By Douglas MacMillan and Brian Womack

July 25 (Bloomberg) -- Facebook Inc. Chief Executive Officer Mark Zuckerberg's decision last year to bet big on mobile software is paying off, with sales of ads on wireless devices now on track to surpass revenue from desktop computers. Surging demand for mobile advertising helped profit and revenue top analysts' estimates in the second quarter yesterday. The results sent shares of the world's most popular social-networking service up as much as 20 percent in early trading today, leaving them poised for a record one-day gain. The earnings may finally quiet concerns, voiced by analysts and investors since Facebook's May 2012 initial public offering, that the rising popularity of smartphones and tablets is outpacing its ability to make money selling promotions to mobile users. By letting marketers show messages in the news feed on such devices, and shifting development efforts toward applications, Zuckerberg is delivering on his promise of making Facebook a "mobile-first" company, according to Jordan Rohan, an analyst at Stifel Nicolaus & Co. in New York.

"There's latent demand for marketers to spend money on Facebook," Rohan, who rates the shares a buy, said in an interview. "The company finally introduced the right set of ad products to facilitate that."

Revenue rose 53 percent to \$1.81 billion in the latest quarter, the company said in a statement yesterday. Profit excluding certain items was 19 cents a share. Analysts had projected profit of 14 cents on sales of \$1.62 billion on average, according to data compiled by Bloomberg.

Blowout Quarter

Facebook jumped to \$31.70 at 7:13 a.m. New York time before the markets opened, signaling the \$64 billion company may exceed its record one-day gain of 19 percent in October, according to data compiled by Bloomberg.

"Finally, the blowout quarter that Facebook bulls have been waiting for," said Paul Sweeney, an analyst at Bloomberg Industries. "Among many impressive data points, I think investors will focus on the percentage of revenue from mobile of 41 percent, which was well above consensus."

Facebook, which had priced its IPO at \$38 a share, saw its stock slump as low as \$17.55 in September. Even after today's gain, the stock is 17 percent below its initial offering price. Concern about Facebook's ability to shift to mobile has weighed

on the company's shares since its \$16 billion IPO, the largest technology offering on record.

Even with the decline, the Menlo Park, California-based company traded at 115 times earnings as of yesterday's close, more expensive than 98 percent of the companies in the Standard & Poor's 500 Index, according to data compiled by Bloomberg.

Mobile Push

Mobile ads, which made up 30 percent of revenue in the first quarter, will soon account for more than half of advertising dollars, Zuckerberg said on a conference call. The number of mobile users expanded 51 percent to 819 million during the quarter. The total number of Facebook members was 1.15 billion, compared with 1.11 billion in the earlier period.

"This quarter represents a strong validation that we're effectively navigating the shift to mobile," David Ebersman, Facebook's chief financial officer, said in an interview. "All the investments we've been making in the business have been paying off."

Facebook is projected to take 13 percent of the global mobile-advertising market this year, up from 5.4 percent last year, according to EMarketer Inc. Even so, the company remains a distant No. 2 to Google Inc., which is expected to grab 56 percent of the market in 2013.

Facebook has stepped up efforts with its mobile services, including updates to its smartphone applications and a new video feature for photo-sharing service Instagram.

Daily Users

Net income attributable to shareholders was \$333 million, or 13 cents a share, compared with a loss of \$157 million, or 8 cents, a year earlier.

More than half, or 61 percent, of Facebook members use the site daily, a number that has risen even as management projected it would decline, Zuckerberg said on the call.

"As we've grown, I always expected our ratio of daily actives to monthly actives would decrease as later technology adopters joined our service," Zuckerberg said. "The opposite has actually been true."

Revenue from payments, which includes virtual goods sold in games such as "FarmVille 2" and "Candy Crush Saga," grew to \$214 million in the second quarter, a gain of 11 percent from a year earlier.

The company lowered its estimate on capital expenditures this year to \$1.6 billion, down from its earlier forecast of \$1.88 billion, due to efficiency gains and the timing of planned

purchases, Ebersman said on the call.

Marketing Tools

Facebook is also making improvements to its advertising tools for marketers. The company said last month it intends to cut its 27 ad units by more than half, making the promotion-buying process more simple and efficient.

The social-networking provider has been wooing more large advertisers. In April, Facebook won back General Motors Co. as a customer almost a year after the automaker said it was pulling ads off the service.

"It's been pretty clear for a long time that Facebook could monetize its 1.1 billion users a lot better," Michael Pachter, an analyst at Wedbush Securities Inc. in Los Angeles, said in an interview. "It may sound simple, but we always knew that if they would just try harder, they could deliver."

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