

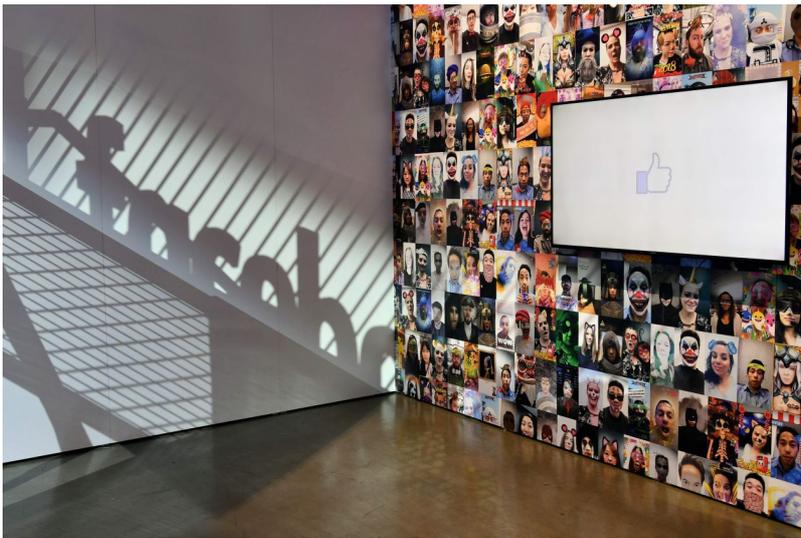
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## TECH

# Facebook's Revenue, Earnings Growth Slows

Company says more than two billion people every day use one of its apps, which include WhatsApp, Instagram and Messenger



Facebook has been bracing for slower growth in its advertising business, which currently collects the bulk of its revenue from ads that appear in the Facebook news feed. PHOTO: JOSH EDELSON/AGENCE FRANCE-PRESSE/GETTY IMAGES

By *Deepa Seetharaman*

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Facebook Inc. [FB 2.91% ▲](#) recorded lower third-quarter revenue than expected and warned that it is in the early stages of a transformation in its core businesses that will lead to slower growth and higher costs in the short term.

The results, in tandem with the guidance from the company, were largely well received by investors, many of whom feared even worse after the company's earnings report in July resulted in a historic collapse of the stock price.

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Chief Executive Mark Zuckerberg said the main Facebook service has thus far made an unsteady transition from the news-feed format to increasingly popular but less lucrative products like Stories, which lets users share photo and video montages that disappear after 24 hours.

Stoxx 600 **355.53** 0.01% ▲

U.S. 10 Yr **-5/32 Yield** 3.141% ▼

Euro **1.1353** 0.05% ▲

FACEBOOK STORIES FORMAT IS GROWING QUICKLY AND I THINK WE WILL BE IN A BETTER POSITION SOON. HE ALSO SAID ADS IN VIDEOS EARN “SIGNIFICANTLY LESS” PER MINUTE THAN THOSE SHOWN IN THE NEWS FEED.

Mr. Zuckerberg added that he believes the company is at least a year away from upgrading its internal systems to the point that it can prevent misinformation and abuse “at the level we want.”

“I expect 2019 to be another year of significant investment” across the company, he said.

As investors digested the earnings and guidance from Facebook officials, the stock price gyrated in after-hours trading. It dove sharply during Mr. Zuckerberg’s remarks and then bounced higher just as quickly. It was up more than 4% when Facebook finished its call with analysts late Tuesday.

All told, it was a more positive reaction from investors as compared with the previous quarter. When the company in July warned of slowing growth in its second-quarter earnings, Facebook shares suffered the biggest-ever one-day loss for a U.S.-listed company, with nearly \$120 billion lopped off from its market value.

SunTrust Robinson Humphrey analyst Youssef Squali said he was “relieved” by Tuesday’s report.

“A year ago, when everything was going great, we assumed everything was going to be great for an extended period of time,” said Mr. Squali, who has a “buy” rating on Facebook shares. “Now we’ve adjusted a little—we have the fear of God in us.”

For the third quarter, Facebook reported per-share earnings of \$1.76, up from \$1.59 a year earlier and beating analyst projections of \$1.46, according to data compiled by FactSet. Facebook’s net income rose to \$5.13 billion from \$4.71 billion. The 9% increase in profit was the slowest growth rate in quarterly profit since the second quarter of 2015, according to FactSet.

Revenue leapt 33% to \$13.73 billion, falling slightly short of expectations of \$13.77 billion. The percentage increase was the lowest in six years, FactSet said.

Before Tuesday’s earnings report, Facebook shares had fallen about 20% year to date and about 34% since its earnings report in late July. The decline in share price is part of a larger pattern of investors fleeing giant tech companies like Google parent Alphabet Inc. and Amazon.com Inc., which posted underwhelming sales growth last week.

About 1.5 billion people use Facebook every day and 2.3 billion use it monthly. Those figures were roughly in line with expectations.

Facebook’s largest sources of user growth are in developing markets, especially in Asia, where it generates about \$2.67 per user. Facebook’s user base didn’t grow much in its most

It has in the U.S. and Canada and 50.04 for its European user base.

This year has marked perhaps the most difficult period in Facebook's nearly 15-year history. Critics have attacked the company's lax data-privacy practices, following Facebook's disclosure that it provided user records to a third party, which then sold the information to political analytics firm Cambridge Analytica.

Facebook also has been criticized for its failure to enforce its content policies and allowing misinformation to infect its various apps.

Facebook is bracing for slower growth in its advertising business, which collects the bulk of its revenue from ads that appear in the Facebook news feed. But users are now embracing different features like Stories, video and private messaging, and that will likely replace some of the time they currently spend in news feed.

Chief Financial Officer Dave Wehner said more of Facebook's ad-impression growth would come from products and areas where Facebook doesn't make as much money, but will have to spend big to remain competitive.

When it comes to video, Mr. Zuckerberg said Facebook was seeing growing usage of its videocentric products like Facebook Watch and IGTV—but remained “well behind” Alphabet's YouTube, which he called Facebook's primary rival in video. Facebook also faces stiff competition in messaging from Apple Inc., which offers iMessage across all its devices, Mr. Zuckerberg said.

The executive suggested Apple has an advantage over Facebook by being able to bundle iMessage with iPhones, especially in the U.S.

“In countries where there's more competition between iOS and Android like much of Europe, people tend to prefer our services” such as WhatsApp and Messenger, Mr. Zuckerberg said.

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