Will Facebook Earnings Beat Expectations Again?

Description

Facebook (NASDAQ: FB) is slated to report its third-quarter 2019 results after the market closes on Wednesday, Oct. 30.

The social networking behemoth is going into its report on a mixed note. Last quarter, it beat Wall Street's revenue and earnings expectations, but investors sent shares tumbling nearly 2% because of concerns about declining margins and increased regulatory scrutiny.

Nonetheless, Facebook stock has gained 40.5% in 2019 through Friday, Oct. 11, making it one of the top performers among the larger tech stocks. Given this strong performance, investors are likely to be unforgiving of any hiccups in the company's upcoming earnings report. The **S&P 500** has returned 20.4% so far this year.

Here's what to watch when Facebook reports.

Key quarterly numbers

Here are Facebook's year-ago results and Wall Street's estimates to use as benchmarks. The company doesn't provide guidance.

Metric	Q3 2018 Result	Wall Street's Q3 2019 Consensus Estimate	Wall Street's Projected Change
Revenue	$13.73 billion	$17.37 billion	26.5%
Adjusted earnings per share (EPS)	$1.76	$1.91	8.5%Â

Data sources: Facebook and Yahoo! Finance.

Revenue growth

Last quarter, Facebook's revenue grew 28% year over year (32% in constant currency) — up from 26% (30% in constant currency) in the first quarter. This was a nice surprise for investors as management had previously said that it expected sequential constant currency revenue growth rate to decelerate throughout the year. On the second quarter's earnings call, management reiterated its projection that constant currency revenue growth will slow down sequentially in the third and fourth quarters.

Margins

The Street expects Facebook's revenue to grow significantly faster than its earnings. That reflects declining margins driven by the company's ramped-up spending to improve data security and user privacy.

Last quarter, Facebook's adjusted operating margin (adjusted operating profit divided by revenue) came in at 39%, down from 44% in the year-ago period. Its adjusted profit margin (adjusted net income divided by revenue) was 34%, down from 39% in the second quarter of 2018. Investors can expect this dynamic to continue in the third quarter.

Key user stats

Last quarter, daily active users (DAUs) of the company's flagship platform increased 8% year over year to 1.59 billion, while monthly active users (MAUs) also grew 8%, to 2.41 billion. User growth has been flattish in the developed world for some time, with growth coming from developing countries. This factor, along with the mix of ads shifting toward Stories ads, has resulted in a slow and steady decline in the price per ad. But powerful growth in the number of ad impressions has been more than compensating for the drop in average ad price.

The bigger picture: More than 2.7 billion people used at least one of the company's services — Facebook, Instagram, WhatsApp, or Messenger — on a monthly basis in June.

Regulatory update

Investors can expect an update on regulatory matters if there have been any material changes since last quarter. Last quarter, along with officially announcing that it had entered a $5 billion settlement with the Federal Trade Commission related to its data security and privacy practices, Facebook also shared in its earnings release that it was the subject of two additional regulatory actions, the first of which was not public news: "In June 2019, we were informed by the FTC that it had opened an antitrust investigation of our company. In addition, inÂ July 2019Â , the Department of Justice announced that it will begin an antitrust review of market-leading online platforms."

Once again, Facebook is scheduled to report its Q3 results after the market closes on Wednesday, Oct. 30.

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Date
2025/07/02
Date Created
2019/10/17
Author
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