

Facebook Reports Second Quarter 2018 Results

MENLO PARK, Calif. – July 25, 2018 – Facebook, Inc. (Nasdaq: FB) today reported financial results for the quarter ended June 30, 2018.

"Our community and business continue to grow quickly," said Mark Zuckerberg, Facebook founder and CEO. "We are committed to investing to keep people safe and secure, and to keep building meaningful new ways to help people connect."

Second Quarter 2018 Financial Highlights

<i>In millions, except percentages and per share amounts</i>	Three Months Ended June 30,		Year-over-Year % Change
	2018	2017	
Revenue:			
Advertising	\$ 13,038	\$ 9,164	42%
Payments and other fees	193	157	23%
Total revenue	13,231	9,321	42%
Total costs and expenses	7,368	4,920	50%
Income from operations	\$ 5,863	\$ 4,401	33%
<i>Operating margin</i>	44%	47%	
Provision for income taxes	\$ 762		
<i>Effective tax rate</i>	13%		
Net income	\$ 5,106	\$ 3,894	31%
Diluted Earnings per Share (EPS)	\$ 1.74	\$ 1.32	32%

Second Quarter 2018 Operational and Other Financial Highlights

- **Daily active users (DAUs)** – DAUs were 1.47 billion on average for June 2018, an increase of 11% year-over-year.
- **Monthly active users (MAUs)** – MAUs were 2.23 billion as of June 30, 2018, an increase of 11% year-over-year.
- **Mobile advertising revenue** – Mobile advertising revenue represented approximately 91% of advertising revenue for the second quarter of 2018, up from approximately 87% of advertising revenue in the second quarter of 2017.
- **Capital expenditures** – Capital expenditures for the second quarter of 2018 were \$3.46 billion.
- **Cash and cash equivalents and marketable securities** – Cash and cash equivalents and marketable securities were \$42.31 billion at the end of the second quarter of 2018.
- **Headcount** – Headcount was 30,275 as of June 30, 2018, an increase of 47% year-over-year.

Webcast and Conference Call Information

Facebook will host a conference call to discuss the results at 2 p.m. PT / 5 p.m. ET today. The live webcast of Facebook's earnings conference call can be accessed at investor.fb.com, along with the earnings press release, financial tables, and slide presentation. Facebook uses the investor.fb.com and newsroom.fb.com websites as well as Mark Zuckerberg's Facebook Page (<https://www.facebook.com/zuck>) as means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

Following the call, a replay will be available at the same website. A telephonic replay will be available for one week following the conference call at +1 (404) 537-3406 or +1 (855) 859-2056, conference ID 7356229.

About Facebook

Founded in 2004, Facebook's mission is to give people the power to build community and bring the world closer together. People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them.

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Forward Looking Statements

This press release contains forward-looking statements regarding our future business expectations, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are only predictions and may differ materially from actual results due to a variety of factors including: our ability to retain or increase users and engagement levels; our reliance on advertising revenue; our dependency on mobile operating systems, networks, and standards that we do not control; risks associated with new products and changes to existing products as well as other new business initiatives; our emphasis on user growth and engagement and the user experience over short-term financial results; maintaining and enhancing our brand and reputation; our ongoing safety, security, and content review efforts; competition; litigation and government inquiries; privacy and regulatory concerns; risks associated with acquisitions; security breaches; and our ability to manage growth and geographically-dispersed operations. These and other potential risks and uncertainties that could cause actual results to differ from the results predicted are more fully detailed under the caption "Risk Factors" in our Quarterly Report on Form 10-Q filed with the SEC on April 26, 2018, which is available on our Investor Relations website at investor.fb.com and on the SEC website at www.sec.gov. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. In addition, please note that the date of this press release is July 25, 2018, and any forward-looking statements contained herein are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of new information or future events.

Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States (GAAP), we use the following non-GAAP financial measures: revenue excluding foreign exchange effect, advertising revenue excluding foreign exchange effect and free cash flow. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In addition, these measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures.

We believe these non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance, and allow for greater transparency with respect to key metrics used by management in operating our business.

We exclude the following items from our non-GAAP financial measures:

Foreign exchange effect on revenue. We translated revenue for the three and six months ended June 30, 2018 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, which we believe is a useful metric that facilitates comparison to our historical performance.

Purchases of property and equipment. We subtract purchases of property and equipment in our calculation of free cash flow because we believe that this methodology can provide useful supplemental information to help investors better understand underlying trends in our business. Free cash flow is not intended to represent our residual cash flow available for discretionary expenditures.

For more information on our non-GAAP financial measures and a reconciliation of GAAP to non-GAAP measures, please see the "Reconciliation of GAAP to Non-GAAP Results" table in this press release.

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except for per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 13,231	\$ 9,321	\$ 25,197	\$ 17,353
Costs and expenses:				
Cost of revenue	2,214	1,237	4,141	2,395
Research and development	2,523	1,919	4,761	3,753
Marketing and sales	1,855	1,124	3,450	2,181
General and administrative	776	640	1,532	1,295
Total costs and expenses	<u>7,368</u>	<u>4,920</u>	<u>13,884</u>	<u>9,624</u>
Income from operations	5,863	4,401	11,313	7,729
Interest and other income, net	5	87	165	168
Income before provision for income taxes	5,868	4,488	11,478	7,897
Provision for income taxes	762	594	1,385	938
Net income	<u>\$ 5,106</u>	<u>\$ 3,894</u>	<u>\$ 10,093</u>	<u>\$ 6,959</u>
Less: Net income attributable to participating securities	—	4	1	10
Net income attributable to Class A and Class B common stockholders	<u>\$ 5,106</u>	<u>\$ 3,890</u>	<u>\$ 10,092</u>	<u>\$ 6,949</u>
Earnings per share attributable to Class A and Class B common stockholders:				
Basic	<u>\$ 1.76</u>	<u>\$ 1.34</u>	<u>\$ 3.48</u>	<u>\$ 2.40</u>
Diluted	<u>\$ 1.74</u>	<u>\$ 1.32</u>	<u>\$ 3.43</u>	<u>\$ 2.36</u>
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:				
Basic	<u>2,895</u>	<u>2,900</u>	<u>2,900</u>	<u>2,895</u>
Diluted	<u>2,930</u>	<u>2,951</u>	<u>2,939</u>	<u>2,950</u>
Share-based compensation expense included in costs and expenses:				
Cost of revenue	\$ 74	\$ 47	\$ 130	\$ 81
Research and development	881	787	1,599	1,457
Marketing and sales	139	120	248	216
General and administrative	92	78	164	145
Total share-based compensation expense	<u>\$ 1,186</u>	<u>\$ 1,032</u>	<u>\$ 2,141</u>	<u>\$ 1,899</u>

FACEBOOK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,552	\$ 8,079
Marketable securities	30,757	33,632
Accounts receivable, net of allowances of \$198 and \$189 as of June 30, 2018 and December 31, 2017, respectively	5,590	5,832
Prepaid expenses and other current assets	1,934	1,020
Total current assets	49,833	48,563
Property and equipment, net	18,357	13,721
Intangible assets, net	1,573	1,884
Goodwill	18,263	18,221
Other assets	2,265	2,135
Total assets	\$ 90,291	\$ 84,524
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 419	\$ 380
Partners payable	440	390
Accrued expenses and other current liabilities	3,720	2,892
Deferred revenue and deposits	91	98
Total current liabilities	4,670	3,760
Other liabilities	6,239	6,417
Total liabilities	10,909	10,177
Commitments and contingencies		
Stockholders' equity:		
Common stock and additional paid-in capital	41,832	40,584
Accumulated other comprehensive loss	(687)	(227)
Retained earnings	38,237	33,990
Total stockholders' equity	79,382	74,347
Total liabilities and stockholders' equity	\$ 90,291	\$ 84,524

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2018</u>	<u>2017*</u>	<u>2018</u>	<u>2017*</u>
Cash flows from operating activities				
Net income	\$ 5,106	\$ 3,894	\$ 10,093	\$ 6,959
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,034	728	1,983	1,400
Share-based compensation	1,186	1,032	2,141	1,899
Deferred income taxes	101	26	54	(58)
Other	10	8	18	12
Changes in assets and liabilities:				
Accounts receivable	(627)	(386)	161	223
Prepaid expenses and other current assets	(535)	(212)	(898)	(577)
Other assets	(77)	51	(59)	82
Accounts payable	49	(28)	50	(38)
Partners payable	51	(7)	53	(10)
Accrued expenses and other current liabilities	(17)	96	690	157
Deferred revenue and deposits	—	6	(4)	(4)
Other liabilities	18	152	(124)	373
Net cash provided by operating activities	<u>6,299</u>	<u>5,360</u>	<u>14,158</u>	<u>10,418</u>
Cash flows from investing activities				
Purchases of property and equipment	(3,459)	(1,444)	(6,272)	(2,715)
Purchases of marketable securities	(4,261)	(7,145)	(8,283)	(14,137)
Sales of marketable securities	4,282	2,236	8,612	3,998
Maturities of marketable securities	1,071	899	2,338	1,498
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	(16)	(8)	(65)	(8)
Other investing activities, net	—	(4)	(1)	(22)
Net cash used in investing activities	<u>(2,383)</u>	<u>(5,466)</u>	<u>(3,671)</u>	<u>(11,386)</u>
Cash flows from financing activities				
Taxes paid related to net share settlement of equity awards	(927)	(724)	(1,758)	(1,495)
Repurchases of Class A common stock	(3,349)	(150)	(5,123)	(378)
Other financing activities, net	4	5	7	12
Net cash used in financing activities	<u>(4,272)</u>	<u>(869)</u>	<u>(6,874)</u>	<u>(1,861)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<u>(186)</u>	<u>94</u>	<u>(149)</u>	<u>122</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(542)	(881)	3,464	(2,707)
Cash, cash equivalents, and restricted cash at beginning of year	12,210	7,283	8,204	9,109
Cash, cash equivalents, and restricted cash at end of the period	<u>\$ 11,668</u>	<u>\$ 6,402</u>	<u>\$ 11,668</u>	<u>\$ 6,402</u>
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets				
Cash and cash equivalents	\$ 11,552	\$ 6,252	\$ 11,552	\$ 6,252
Restricted cash, included in prepaid expenses and other current assets	11	59	11	59
Restricted cash, included in other assets	105	91	105	91
Total cash, cash equivalents, and restricted cash	<u>\$ 11,668</u>	<u>\$ 6,402</u>	<u>\$ 11,668</u>	<u>\$ 6,402</u>

*Prior-period information has been retrospectively adjusted due to our adoption of ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* (Topic 230) on January 1, 2018.

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017*	2018	2017*
Supplemental cash flow data				
Cash paid during the period for:				
Income taxes, net	\$ 1,545	\$ 695	\$ 2,281	\$ 1,359
Non-cash investing and financing activities:				
Net change in prepaids and liabilities related to property and equipment additions	\$ (198)	\$ 170	\$ 231	\$ 240
Change in unsettled repurchases of Class A common stock	\$ (135)	\$ 30	\$ 6	\$ 30

*Prior-period information has been retrospectively adjusted due to our adoption of ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* (Topic 230) on January 1, 2018.

Reconciliation of GAAP to Non-GAAP Results

(In millions, except percentages)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
GAAP revenue	\$ 13,231	\$ 9,321	\$ 25,197	\$ 17,353
Foreign exchange effect on 2018 revenue using 2017 rates	(373)		(908)	
Revenue excluding foreign exchange effect	\$ 12,858		\$ 24,289	
GAAP revenue year-over-year change %	42%		45%	
Revenue excluding foreign exchange effect year-over-year change %	38%		40%	
GAAP advertising revenue	\$ 13,038	\$ 9,164	\$ 24,833	\$ 17,021
Foreign exchange effect on 2018 advertising revenue using 2017 rates	(371)		(906)	
Advertising revenue excluding foreign exchange effect	\$ 12,667		\$ 23,927	
GAAP advertising revenue year-over-year change %	42%		46%	
Advertising revenue excluding foreign exchange effect year-over-year change %	38%		41%	
Net cash provided by operating activities	\$ 6,299	\$ 5,360	\$ 14,158	\$ 10,418
Purchases of property and equipment	(3,459)	(1,444)	(6,272)	(2,715)
Free cash flow	<u>\$ 2,840</u>	<u>\$ 3,916</u>	<u>\$ 7,886</u>	<u>\$ 7,703</u>