Facebook Q3 2017 Results
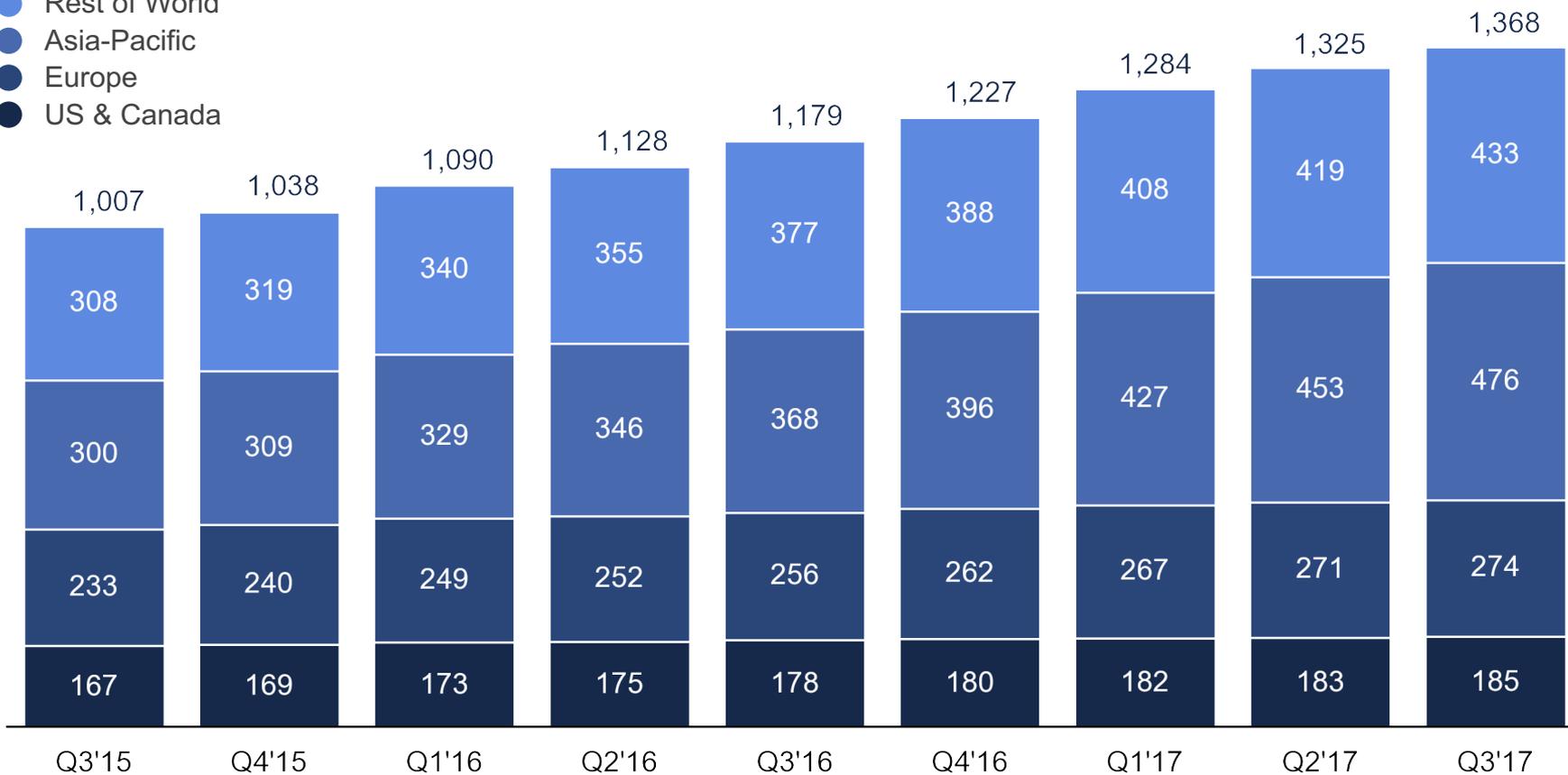
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Daily Active Users (DAUs)

In Millions

Legend:
- Rest of World
- Asia-Pacific
- Europe
- US & Canada

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	1,007	1,038	1,090	1,128	1,179	1,227	1,284	1,325	1,368
Rest of World	308	319	340	355	377	388	408	419	433
Asia-Pacific	300	309	329	346	368	396	427	453	476
Europe	233	240	249	252	256	262	267	271	274
US & Canada	167	169	173	175	178	180	182	183	185

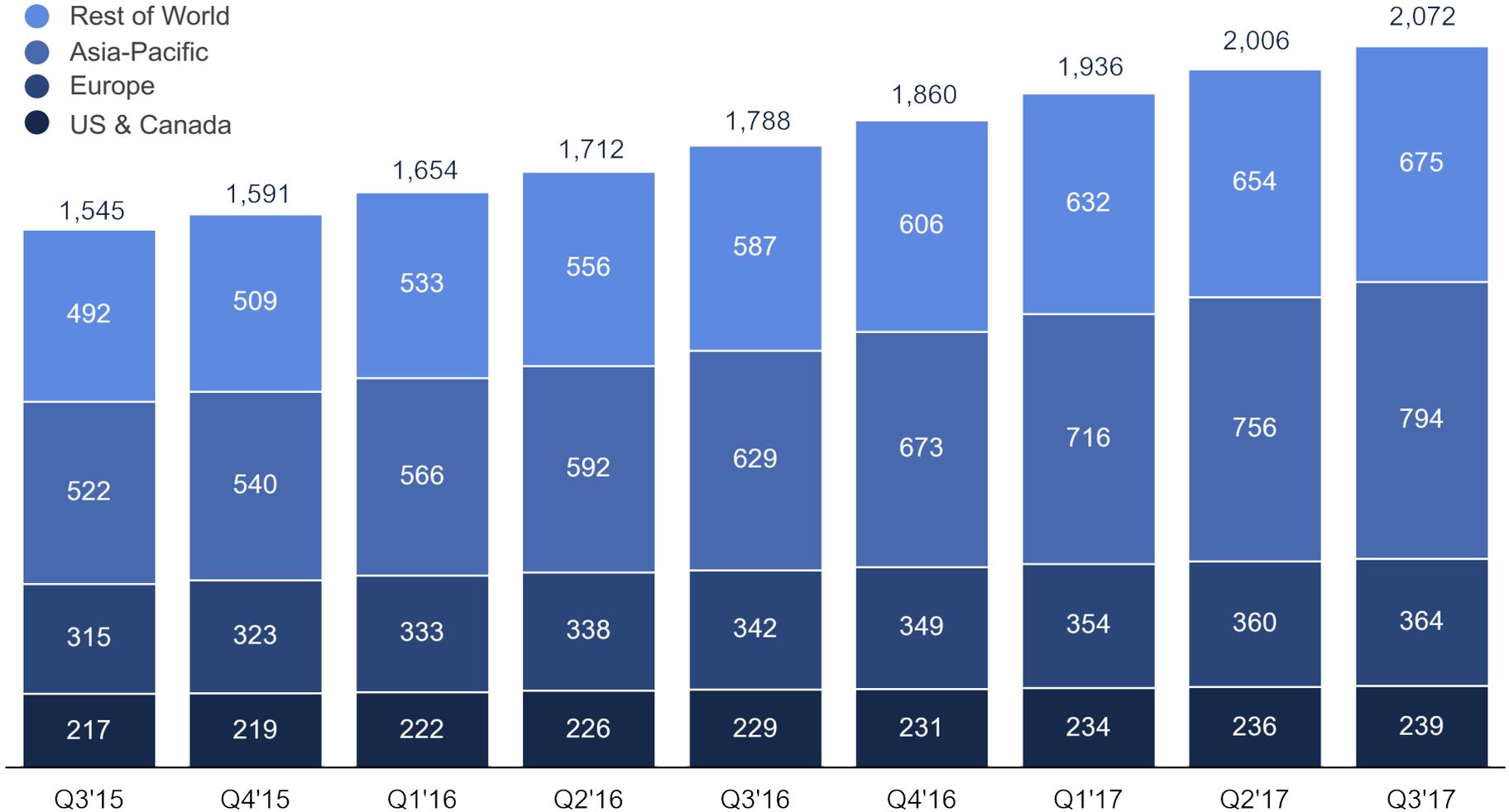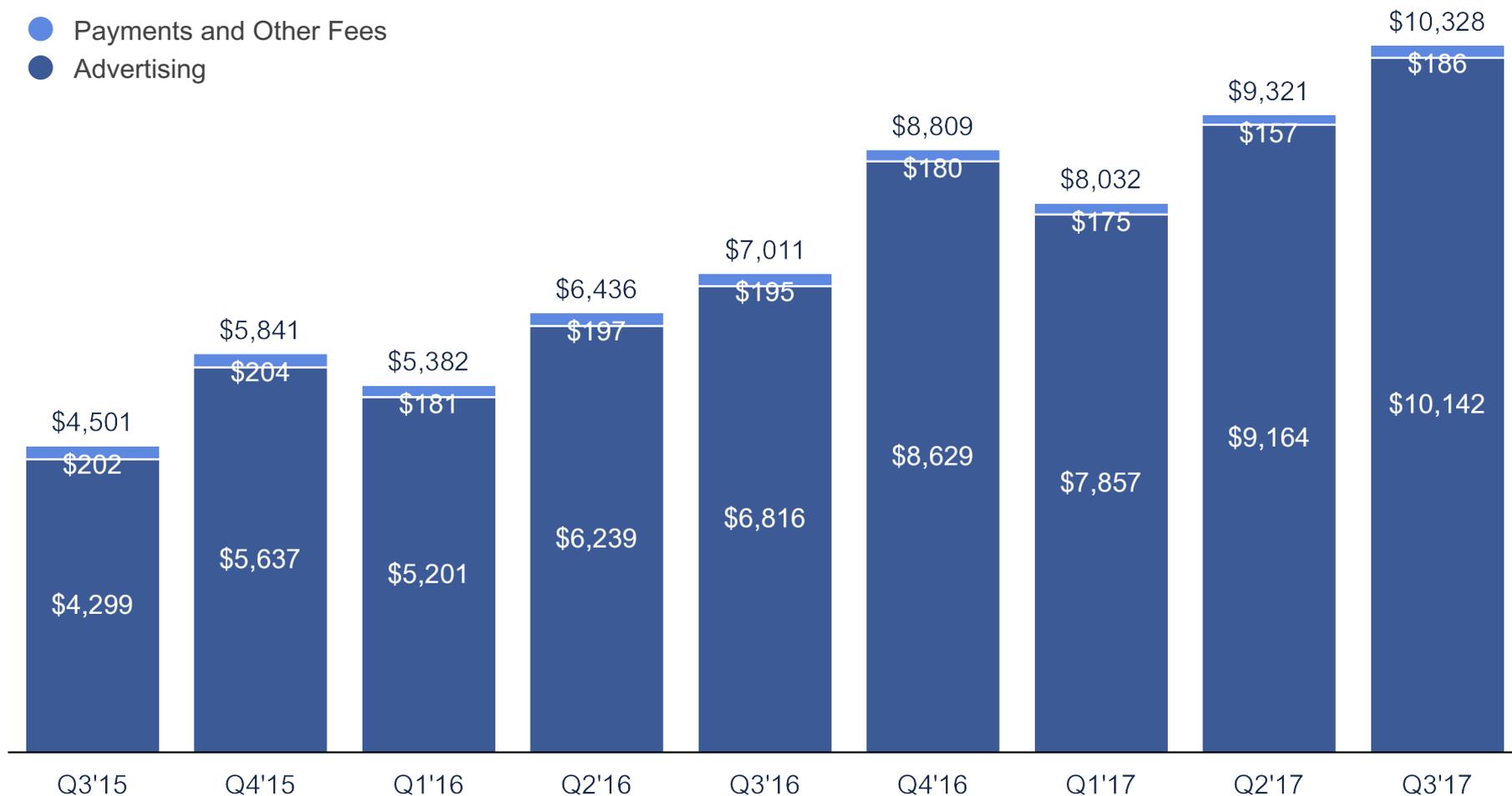| DAUs / MAUs	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
	65%	65%	66%	66%	66%	66%	66%	66%	66%

Please see Facebook's most recent quarterly report filed with the SEC for definitions of user activity used to determine the number of our DAUs and MAUs. The numbers for DAUs and MAUs do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook.

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Monthly Active Users (MAUs)

In Millions

- **Rest of World**
- **Asia-Pacific**
- **Europe**
- **US & Canada**

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	1,545	1,591	1,654	1,712	1,788	1,860	1,936	2,006	2,072
Rest of World	492	509	533	556	587	606	632	654	675
Asia-Pacific	522	540	566	592	629	673	716	756	794
Europe	315	323	333	338	342	349	354	360	364
US & Canada	217	219	222	226	229	231	234	236	239

Please see Facebook's most recent quarterly report filed with the SEC for definitions of user activity used to determine the number of our DAUs and MAUs. The numbers for DAUs and MAUs do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook.
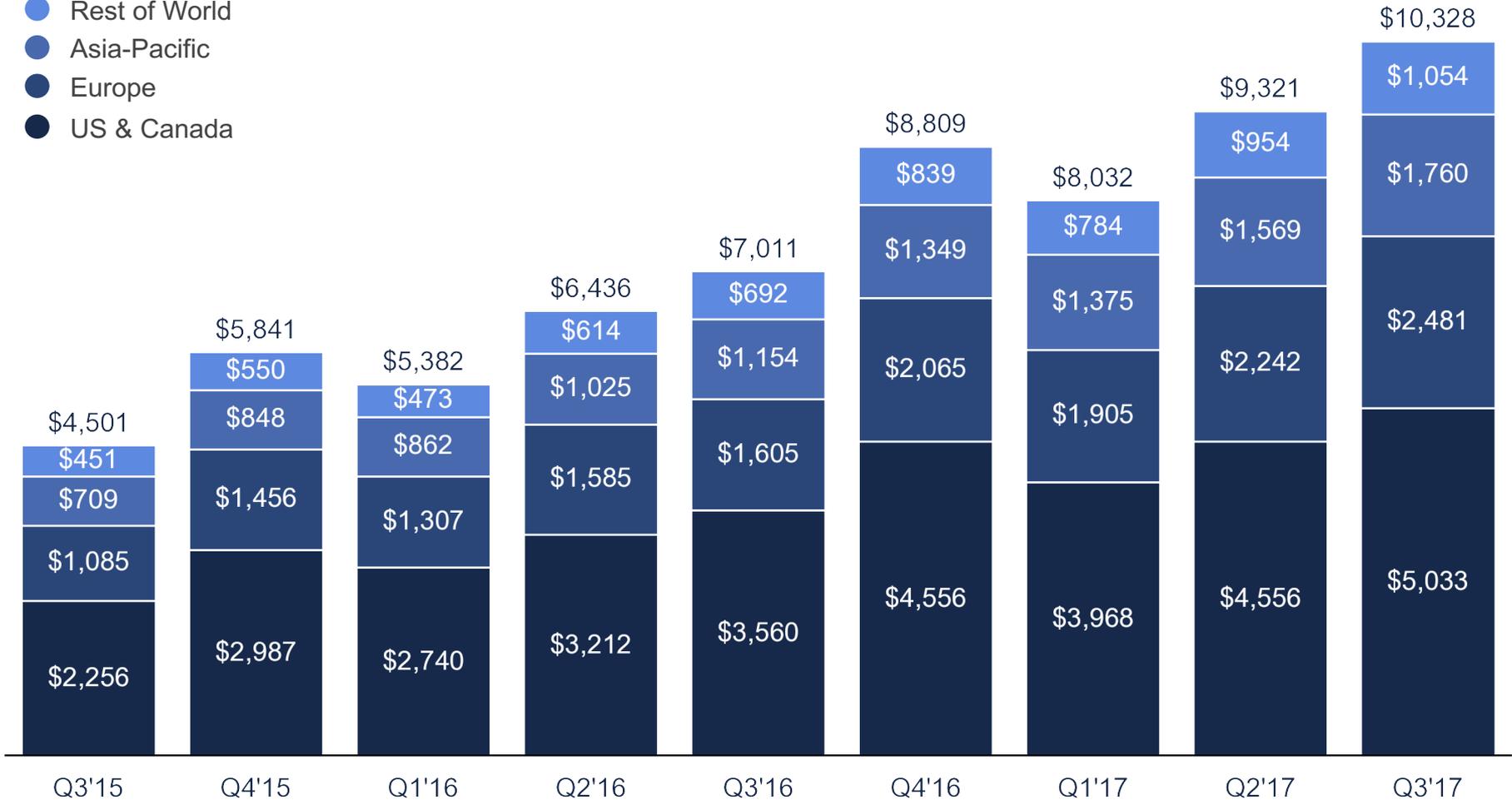
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Revenue

In Millions

Legend:
- Payments and Other Fees
- Advertising

Quarter	Total	Payments and Other Fees	Advertising
Q3'15	$4,501	$202	$4,299
Q4'15	$5,841	$204	$5,637
Q1'16	$5,382	$181	$5,201
Q2'16	$6,436	$197	$6,239
Q3'16	$7,011	$195	$6,816
Q4'16	$8,809	$180	$8,629
Q1'17	$8,032	$175	$7,857
Q2'17	$9,321	$157	$9,164
Q3'17	$10,328	$186	$10,142

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Revenue by User Geography

In Millions

Legend:
- Rest of World
- Asia-Pacific
- Europe
- US & Canada

Quarter	US & Canada	Europe	Asia-Pacific	Rest of World	Total
Q3'15	$2,256	$1,085	$709	$451	$4,501
Q4'15	$2,987	$1,456	$848	$550	$5,841
Q1'16	$2,740	$1,307	$862	$473	$5,382
Q2'16	$3,212	$1,585	$1,025	$614	$6,436
Q3'16	$3,560	$1,605	$1,154	$692	$7,011
Q4'16	$4,556	$2,065	$1,349	$839	$8,809
Q1'17	$3,968	$1,905	$1,375	$784	$8,032
Q2'17	$4,556	$2,242	$1,569	$954	$9,321
Q3'17	$5,033	$2,481	$1,760	$1,054	$10,328

Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. In late 2015, we discovered an error in the algorithm we used to attribute our revenue by user geography. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography for all regions was adjusted to reflect this reclassification.

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Advertising Revenue by User Geography

In Millions

Legend:
- Rest of World
- Asia-Pacific
- Europe
- US & Canada

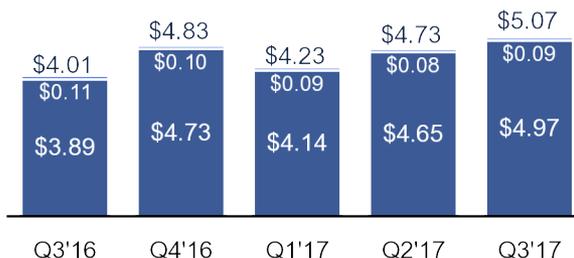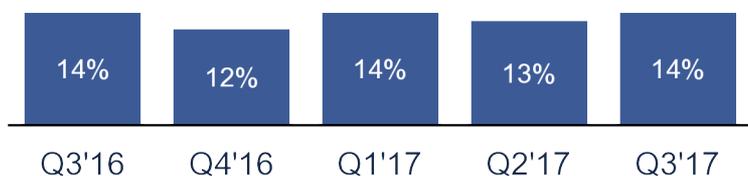|	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$4,299	$5,637	$5,201	$6,239	$6,816	$8,629	$7,857	$9,164	$10,142
Rest of World	$444	$544	$467	$608	$685	$832	$776	$947	$1,047
Asia-Pacific	$694	$833	$849	$1,009	$1,137	$1,337	$1,361	$1,558	$1,749
Europe	$1,041	$1,413	$1,270	$1,545	$1,563	$2,025	$1,869	$2,209	$2,434
US & Canada	$2,120	$2,847	$2,615	$3,077	$3,431	$4,435	$3,851	$4,450	$4,912

Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. In late 2015, we discovered an error in the algorithm we used to attribute our revenue by user geography. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography for all regions was adjusted to reflect this reclassification.

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Payments & Other Fees Revenue by User Geography
In Millions

- Rest of World
- Asia-Pacific
- Europe
- US & Canada

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$202	$204	$181	$197	$195	$180	$175	$157	$186
Rest of World	$7	$6	$6	$6	$7	$7	$8	$7	$7
Asia-Pacific	$15	$15	$13	$16	$17	$12	$14	$11	$11
Europe	$44	$43	$37	$40	$42	$40	$36	$33	$47
US & Canada	$136	$140	$125	$135	$129	$121	$117	$106	$121

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Average Revenue per User (ARPU)

● Payments and Other Fees
● Advertising

Worldwide

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$4.01	$4.83	$4.23	$4.73	$5.07
Payments	$0.11	$0.10	$0.09	$0.08	$0.09
Advertising	$3.89	$4.73	$4.14	$4.65	$4.97

US & Canada

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$15.65	$19.81	$17.07	$19.38	$21.20
Payments	$0.57	$0.53	$0.50	$0.45	$0.51
Advertising	$15.08	$19.28	$16.56	$18.93	$20.69

Europe

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$4.72	$5.98	$5.42	$6.28	$6.85
Payments	$0.12	$0.12	$0.10	$0.09	$0.13
Advertising	$4.60	$5.86	$5.32	$6.19	$6.72

Asia-Pacific

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$1.89	$2.07	$1.98	$2.13	$2.27
Payments	$0.03	$0.02	$0.02	$0.01	$0.01
Advertising	$1.86	$2.05	$1.96	$2.12	$2.26

Rest of World

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Total	$1.21	$1.41	$1.27	$1.48	$1.59
Payments	$0.01	$0.01	$0.01	$0.01	$0.01
Advertising	$1.20	$1.39	$1.25	$1.47	$1.58

Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. Please see Facebook's most recent quarterly report filed with the SEC for the definition of ARPU.
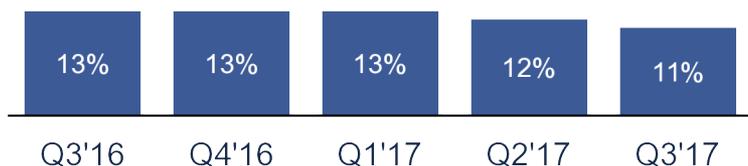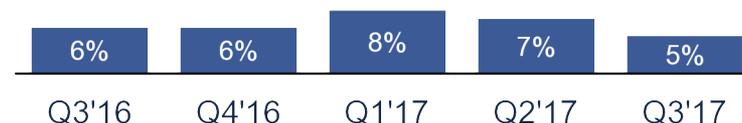
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Expenses as a % of Revenue

Cost of Revenue

Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
14%	12%	14%	13%	14%

Research & Development

Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
22%	18%	23%	21%	20%

Marketing & Sales

Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
13%	13%	13%	12%	11%
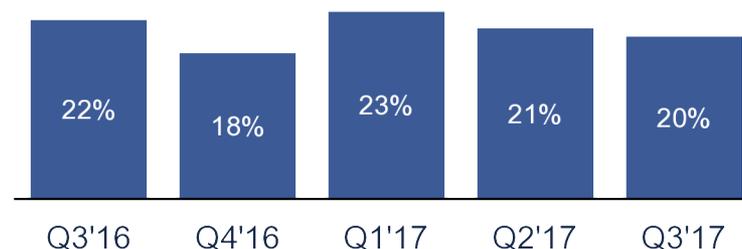
General & Administrative

Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
6%	6%	8%	7%	5%

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Income from Operations
In Millions

Quarter	Income
Q3'15	$1,459
Q4'15	$2,560
Q1'16	$2,010
Q2'16	$2,734
Q3'16	$3,117
Q4'16	$4,566
Q1'17	$3,327
Q2'17	$4,401
Q3'17	$5,122
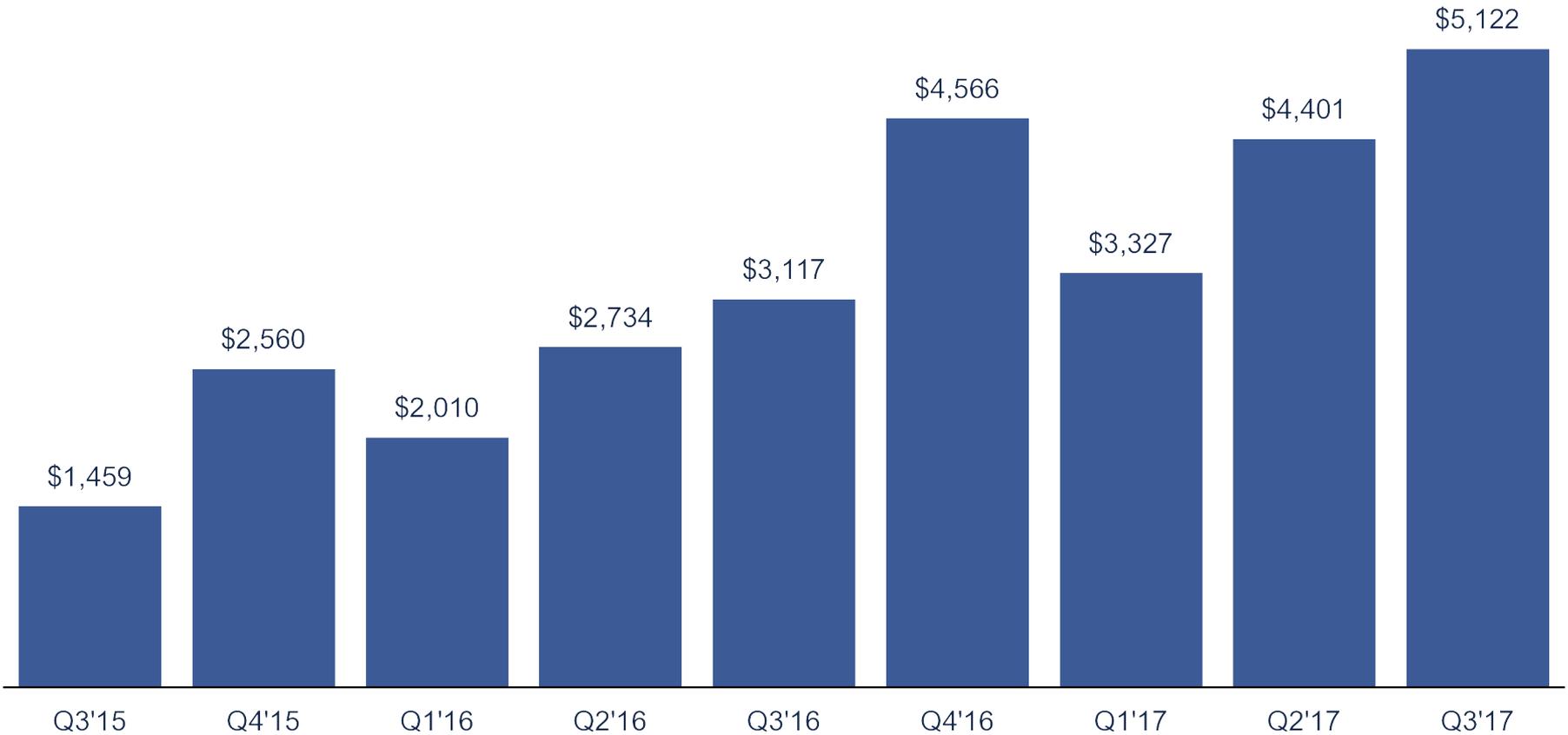
In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly income from operations for and following 2016 include the impact of ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information.
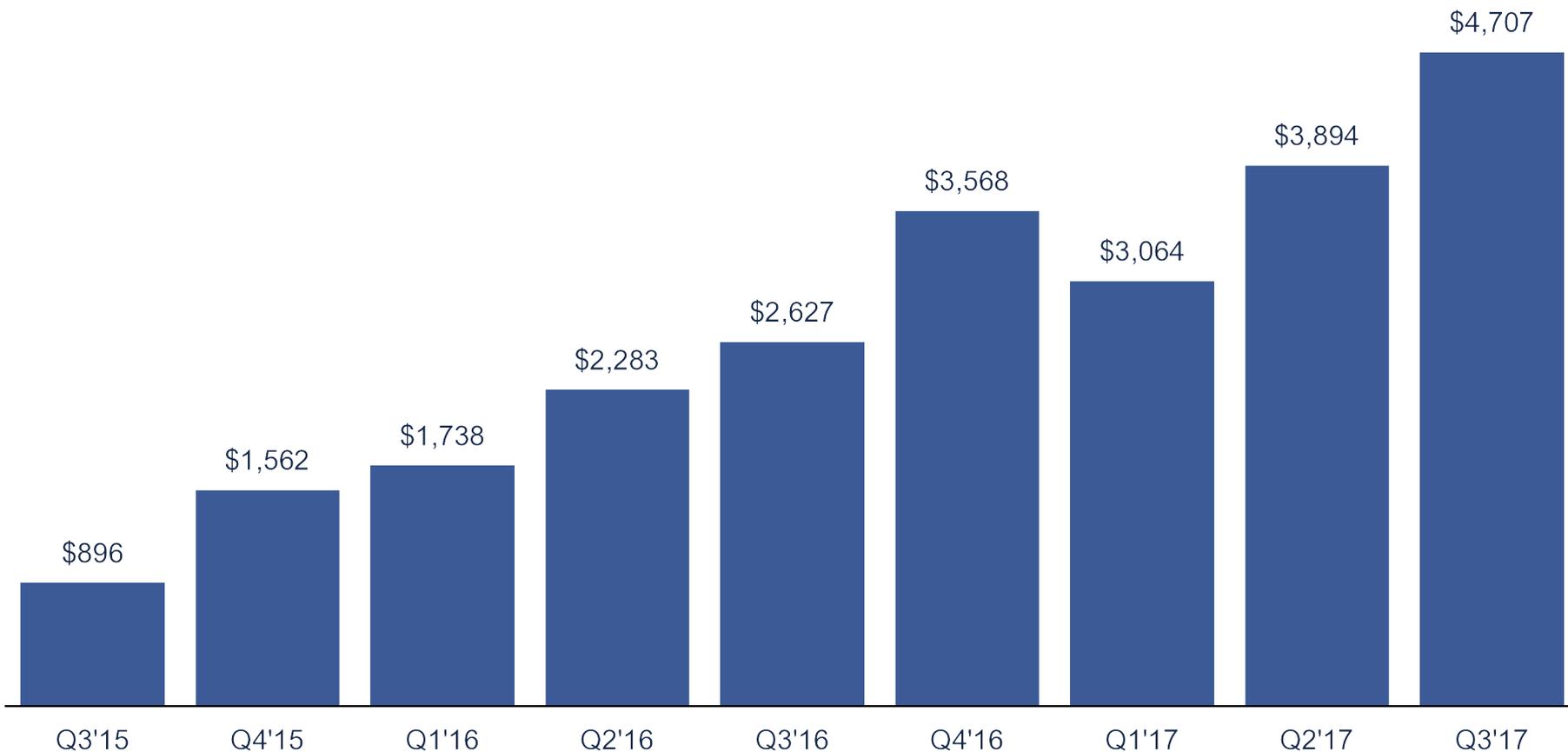
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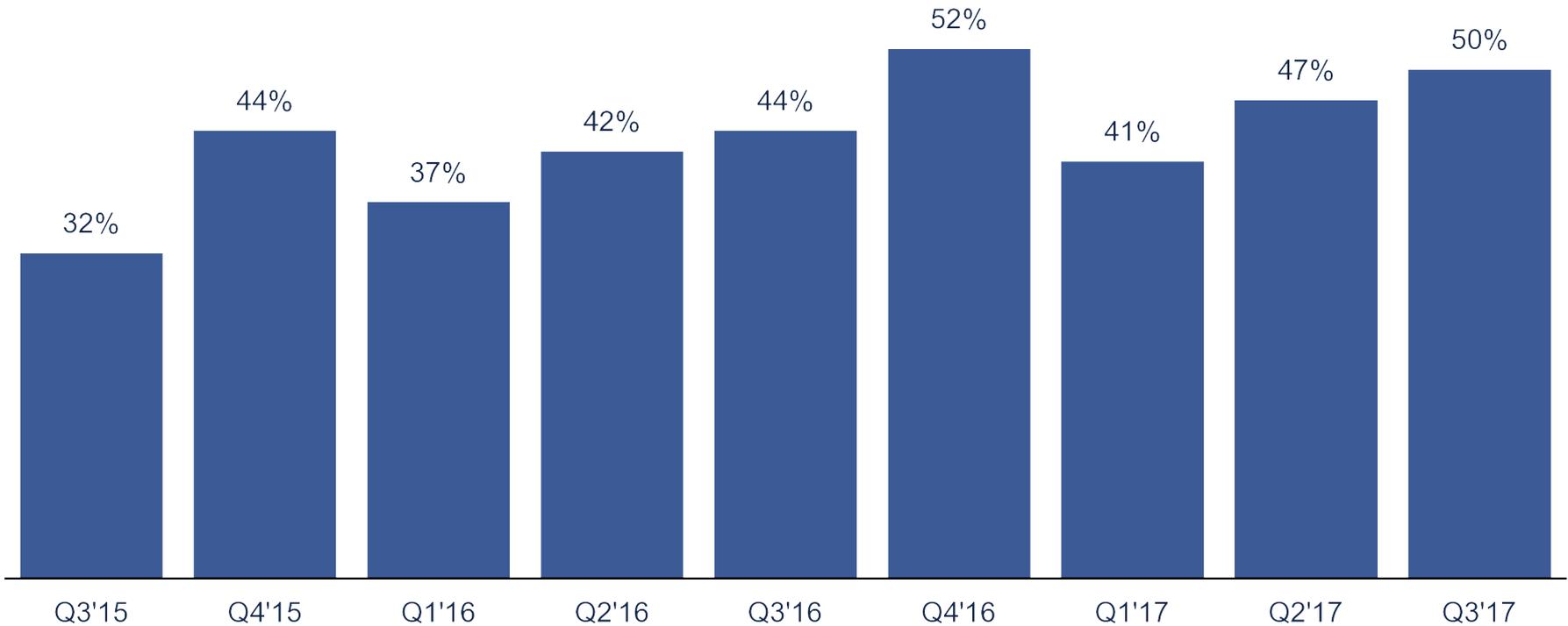
Operating Margin

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly operating margin for and following 2016 include the impact of ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information.
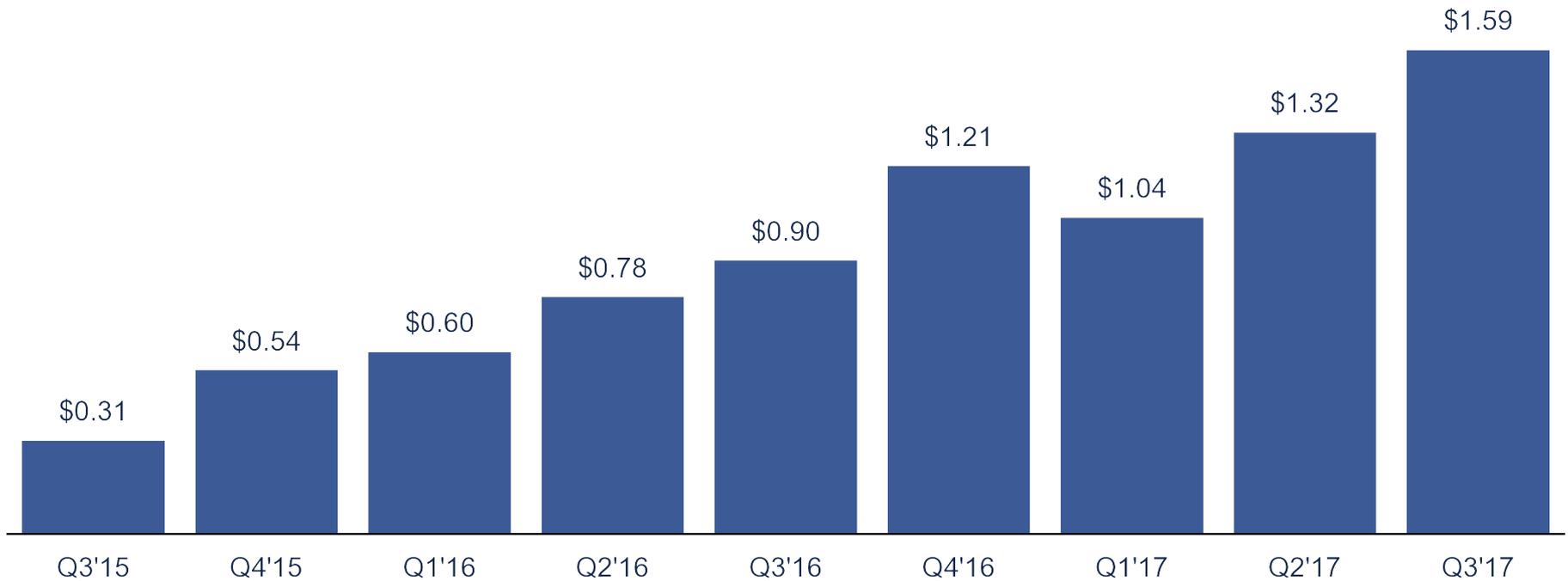
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Effective Tax Rate

($ in millions)	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Income before provision for income taxes	$ 1,432	$ 2,557	$ 2,066	$ 2,754	$ 3,164	$ 4,533	$ 3,408	$ 4,488	$ 5,236
Provision for income taxes	536	995	328	471	537	965	344	594	529
Effective Tax Rate	**37%**	**39%**	**16%**	**17%**	**17%**	**21%**	**10%**	**13%**	**10%**

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly effective tax rates for and following 2016 include the impact of ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information.

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Net Income
In Millions

Quarter	Net Income
Q3'15	$896
Q4'15	$1,562
Q1'16	$1,738
Q2'16	$2,283
Q3'16	$2,627
Q4'16	$3,568
Q1'17	$3,064
Q2'17	$3,894
Q3'17	$4,707

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly net income for and following 2016 include the impact of ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information.

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Diluted Earnings Per Share

Quarter	EPS
Q3'15	$0.31
Q4'15	$0.54
Q1'16	$0.60
Q2'16	$0.78
Q3'16	$0.90
Q4'16	$1.21
Q1'17	$1.04
Q2'17	$1.32
Q3'17	$1.59

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly diluted earnings per share for and following 2016 include the impact of ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information.

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Capital Investments

In Millions

$1,095 — Q3'16

$1,755 — Q3'17

Quarterly

$2,523 — 2015

$4,491 — 2016

Annual
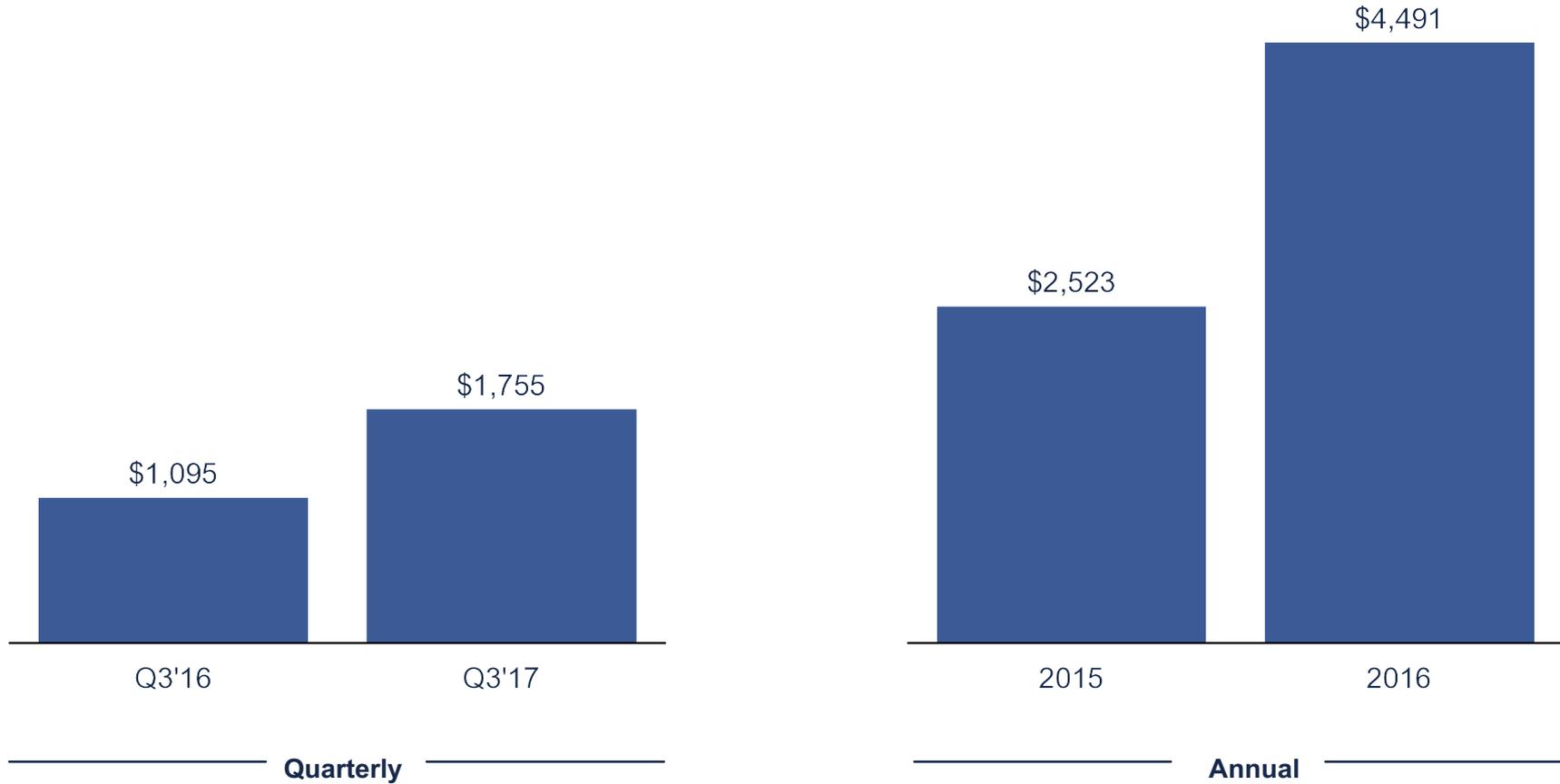
Capital investments for periods presented were related to purchases of property and equipment.

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Appendix

ASU 2016-09 Adoption

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09 which addresses, among other items, the accounting for income taxes and forfeitures, and cash flow presentation of share-based compensation. We were required to reflect any adjustments as of January 1, 2016, the beginning of the annual period that included the interim period of adoption. Upon adoption, excess tax benefits generated when stock awards vest or settle were no longer recognized in equity but were instead recognized as a reduction to provision for income taxes. We also elected to account for forfeitures as they occur, rather than estimate expected forfeitures. Cash flows related to excess tax benefits were required to be presented as an operating activity rather than a financing activity. We adopted the aspects of the standard affecting the cash flow presentation retrospectively, and accordingly, cash flows for and following 2016 had been reclassified to reflect the impact of ASU 2016-09 adoption.

The adoption of ASU 2016-09 resulted in, among other items, (i) net cumulative-effect adjustment of $1.67 billion increase to retained earnings as of January 1, 2016, (ii) reduction to our provision for income taxes of $214 million and $934 million, mostly related to the recognition of excess tax benefits for the fourth quarter and full year 2016, respectively, and (iii) adjustments to our unaudited selected quarterly data previously reported for fiscal year 2016 as follows:

($ in millions)	March 31, 2016		June 30, 2016		September 30, 2016	
	As reported	As adjusted	As reported	As adjusted	As reported	As adjusted
Consolidated Balance Sheets Data:						
Other assets	$ 700	$ 886	$ 703	$ 935	$ 660	$ 990
Total assets	$ 52,075	$ 52,262	$ 55,739	$ 55,968	$ 59,674	$ 60,007
Other liabilities	$ 3,116	$ 1,867	$ 3,145	$ 2,170	$ 2,964	$ 2,290
Total liabilities	$ 4,925	$ 3,674	$ 5,356	$ 4,373	$ 5,559	$ 4,886
Common stock and additional paid-in capital	$ 36,129	$ 35,673	$ 37,405	$ 36,494	$ 38,756	$ 37,391
Retained earnings	$ 11,297	$ 13,191	$ 13,352	$ 15,475	$ 15,731	$ 18,102

($ in millions, except percentages and per share amounts)	Three months ended March 31, 2016		Three months ended June 30, 2016		Three months ended September 30, 2016	
	As reported	As adjusted	As reported	As adjusted	As reported	As adjusted
Consolidated Statements of Income Data:						
Share-based compensation included in costs and expenses	$ 747	$ 746	$ 805	$ 817	$ 819	$ 824
Total costs and expenses	$ 3,373	$ 3,372	$ 3,690	$ 3,702	$ 3,889	$ 3,894
Provision for income taxes	$ 555	$ 328	$ 711	$ 471	$ 790	$ 537
Net income	$ 1,510	$ 1,738	$ 2,055	$ 2,283	$ 2,379	$ 2,627
Effective tax rate	*27%*	*16%*	*26%*	*17%*	*25%*	*17%*
Basic EPS	$ 0.53	$ 0.61	$ 0.72	$ 0.80	$ 0.83	$ 0.91
Diluted EPS	$ 0.52	$ 0.60	$ 0.71	$ 0.78	$ 0.82	$ 0.90
Diluted weighted average shares outstanding	2,888	2,905	2,904	2,921	2,915	2,931

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ASU 2016-09 Adoption (continued)

($ in millions)	Three months ended March 31, 2016		Six months ended June 30, 2016		Nine months ended September 30, 2016	
	As reported	As adjusted	As reported	As adjusted	As reported	As adjusted
Consolidated Statements of Cash Flows Data:						
Net cash provided by operating activities	$ 2,983	$ 3,477	$ 6,181	$ 7,142	$ 9,758	$ 11,178
Net cash provided by (used in) financing activities	$ 184	$ (310)	$ 655	$ (306)	$ 1,106	$ (314)

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Free Cash Flow Reconciliation

($ in millions)	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Net cash provided by operating activities	$ 2,538	$ 3,393	$ 3,477	$ 3,665	$ 4,036	$ 4,930	$ 5,058	$ 5,360	$ 6,128
Less: Purchases of property and equipment	780	692	1,132	995	1,095	1,269	1,271	1,444	1,755
Free Cash Flow	$ 1,758	$ 2,701	$ 2,345	$ 2,670	$ 2,941	$ 3,661	$ 3,787	$ 3,916	$ 4,373

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. Quarterly net cash provided by operating activities and free cash flows for all periods presented were adjusted to reflect the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in this Appendix for additional information.

Free Cash Flow (FCF) is a non-GAAP financial measure that has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are: (i) FCF does not reflect our future contractual commitments, and (ii) other companies in our industry present similarly titled measures differently than we do, limiting their usefulness as comparative measures. FCF is not intended to represent our residual cash flow available for discretionary expenditures.

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Limitations of Key Metrics and Other Data

The numbers for our key metrics, which include our daily active users (DAUs), monthly active users (MAUs), and average revenue per user (ARPU), are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

We regularly evaluate these metrics to estimate the number of "duplicate" and "false" accounts among our MAUs. A duplicate account is one that a user maintains in addition to his or her principal account. We divide "false" accounts into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. The estimates of duplicate and false accounts are based on an internal review of a limited sample of accounts, and we apply significant judgment in making this determination. For example, to identify duplicate accounts we use data signals such as similar IP addresses or user names, and to identify false accounts we look for names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new data signals or technologies, which may allow us to identify previously undetected duplicate or false accounts and may improve our ability to evaluate a broader population of our users. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts. In particular, duplicate accounts are very difficult to measure at our scale, and it is possible that the actual number of duplicate accounts may be significantly higher than our estimates.

In the third quarter of 2017, we calculated these estimates using a new methodology for duplicate accounts that included improvements to the data signals we rely on to help identify such accounts. As a result, we estimate that duplicate accounts may have represented approximately 10% of our worldwide MAUs. We believe the increase in this estimate from our prior estimate of duplicate accounts is primarily due to implementation of this new methodology. We also believe the percentage of duplicate accounts is meaningfully higher in developing markets such as India, Indonesia, and the Philippines, as compared to more developed markets. In the third quarter of 2017, we estimate that user-misclassified and undesirable accounts may have represented approximately 2-3% of our worldwide MAUs. Our estimation of false accounts can vary as a result of episodic spikes in the creation of such accounts, which we observed in the third quarter of 2017 and which we have seen originate more frequently in specific countries such as Indonesia and Vietnam.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete.

In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors. For example, in late 2015, we discovered an error in the algorithm we used to attribute our revenue by user geography. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography amounts were adjusted to reflect this reclassification.

We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology.

The numbers of DAUs and MAUs discussed in this presentation, as well as ARPU, do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook.

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Facebook Q3 2017 Results

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