Facebook Q1 2017 Results

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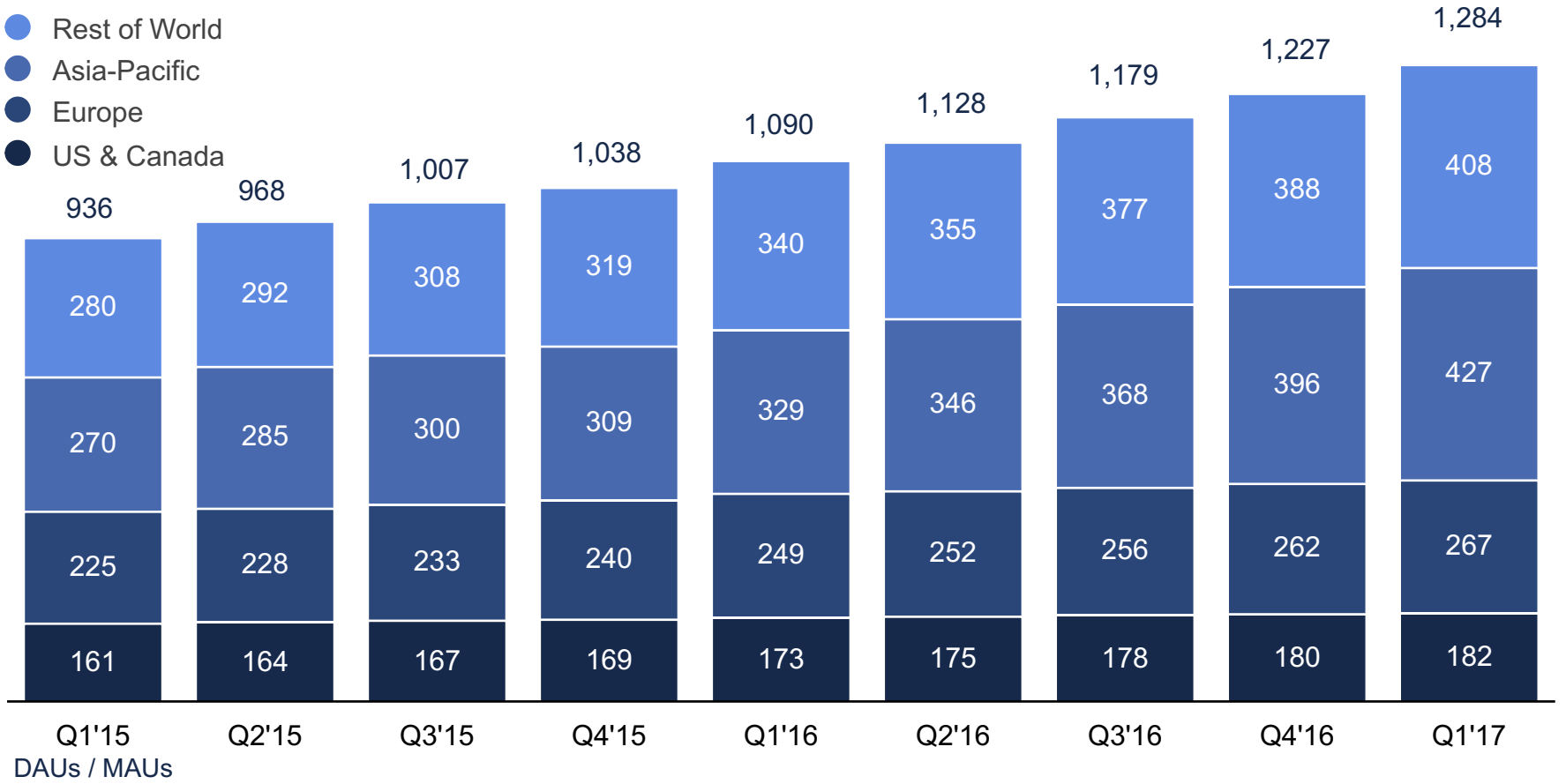
Daily Active Users (DAUs)

In Millions



DAUs / MAUs

Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
65%	65%	65%	65%	66%	66%	66%	66%	66%

Please see Facebook's most recent quarterly and annual reports 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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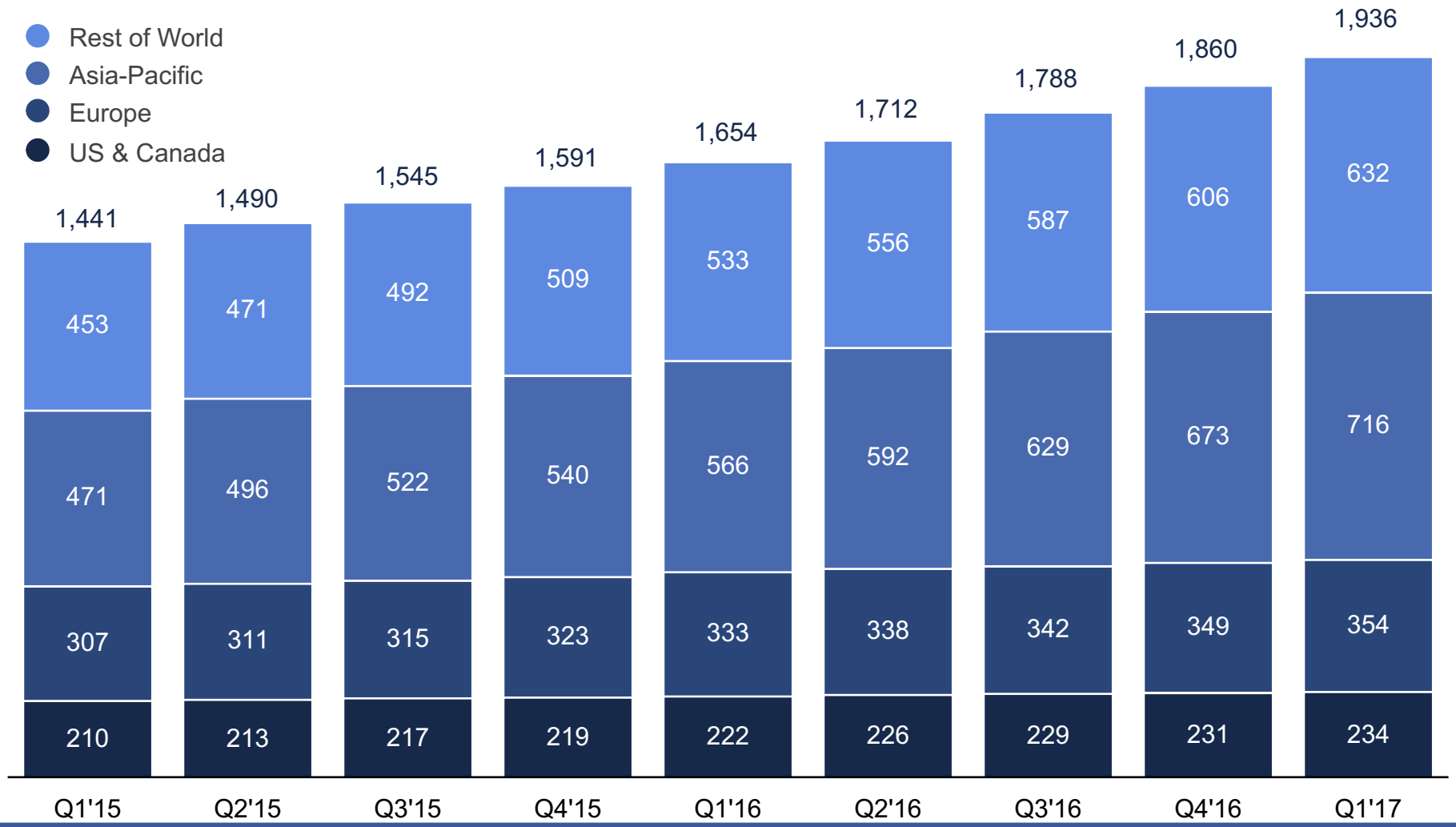
Monthly Active Users (MAUs)

In Millions



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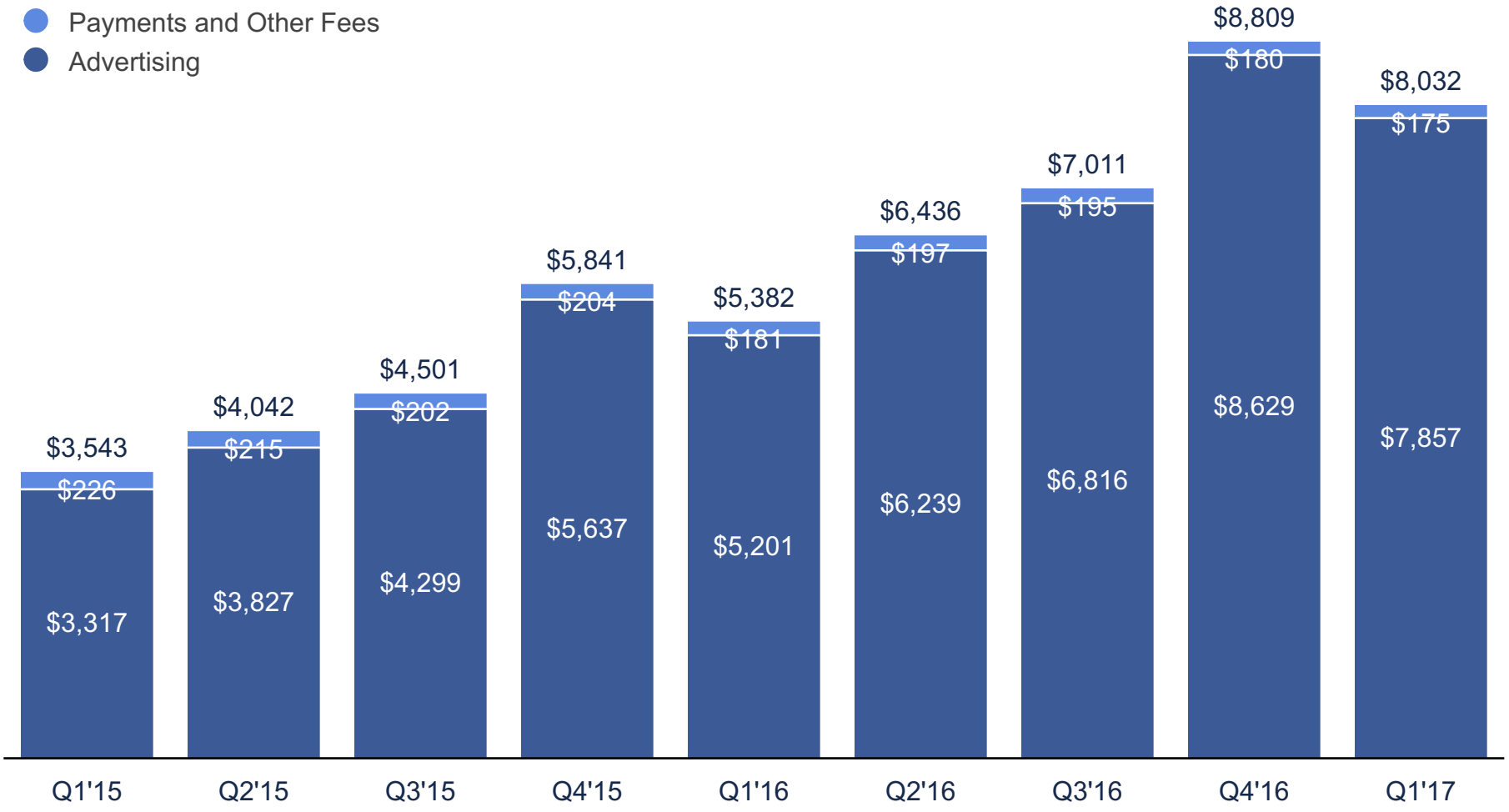
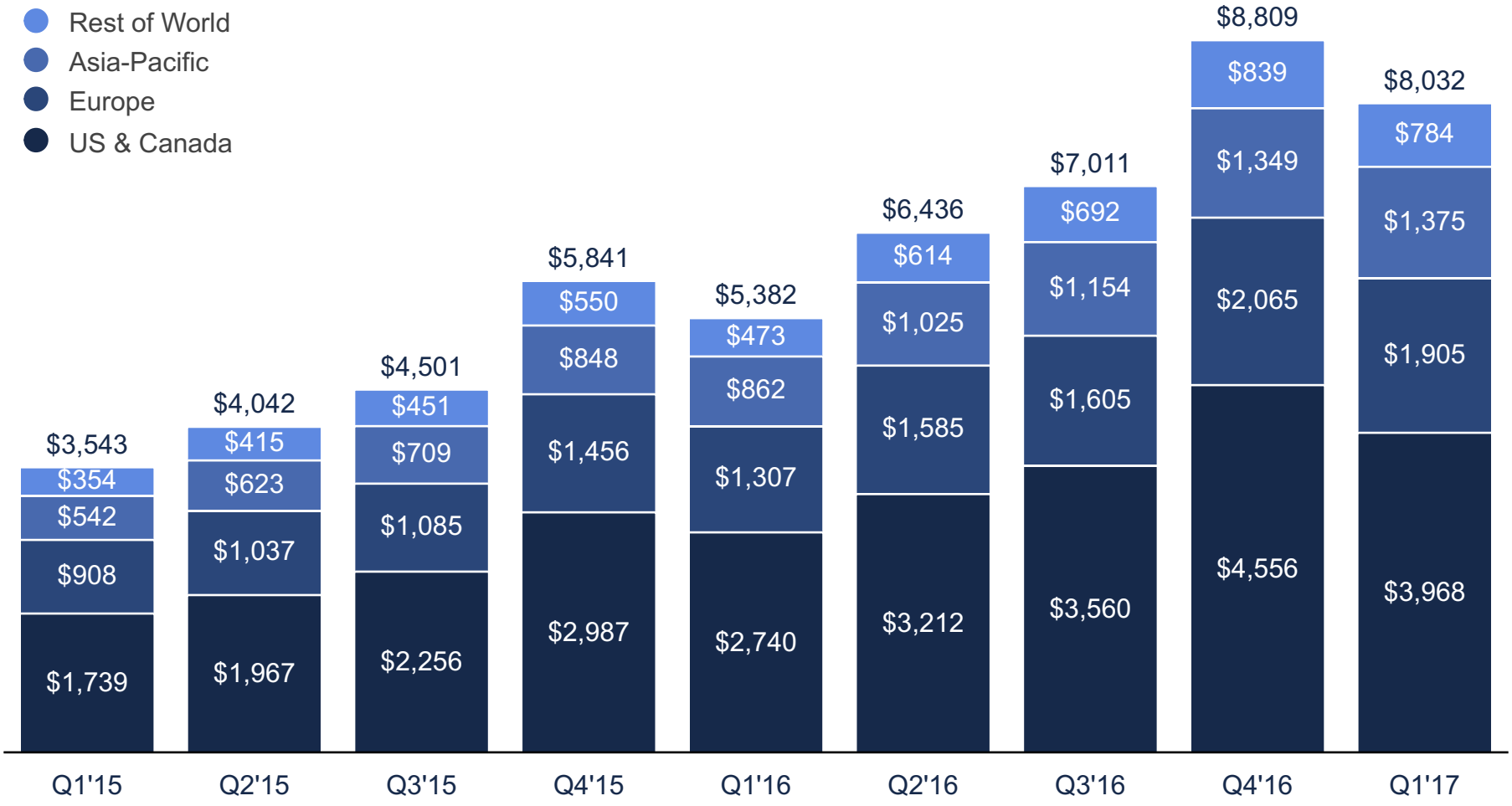
Revenue

In Millions



Revenue by User Geography

In Millions



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. We discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. 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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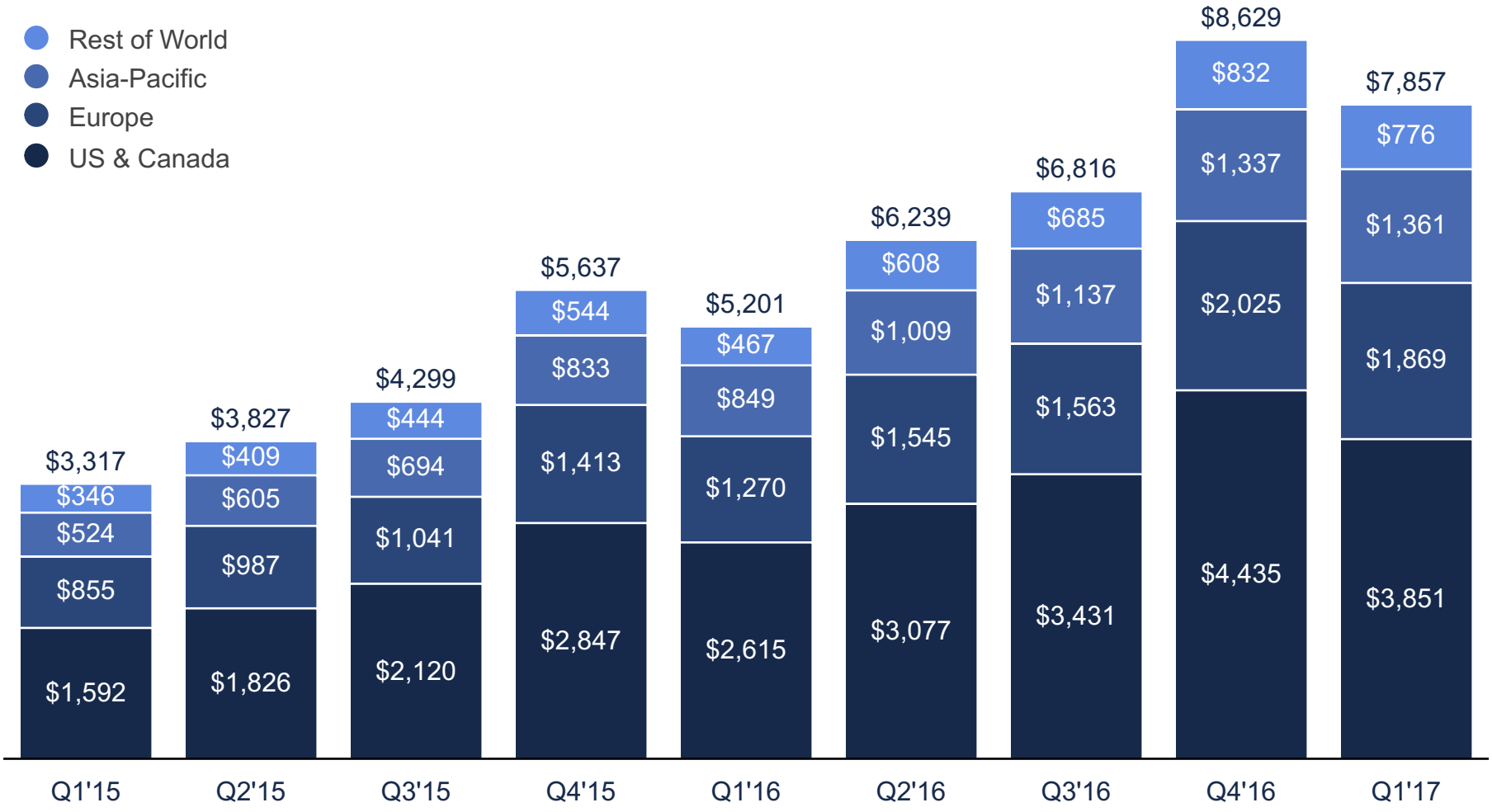
Advertising Revenue by User Geography

In Millions



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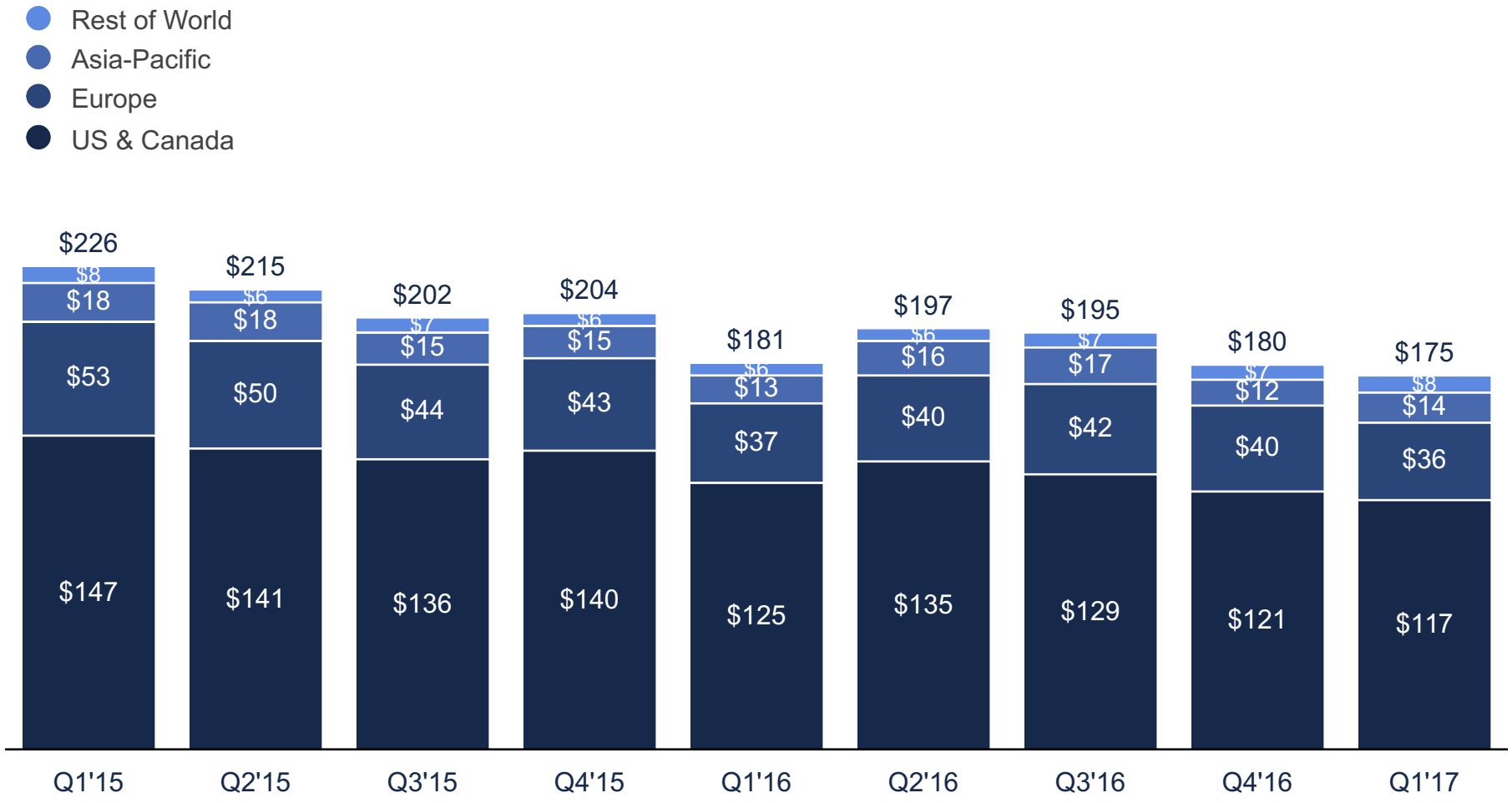
Payments & Other Fees Revenue by User Geography

In Millions



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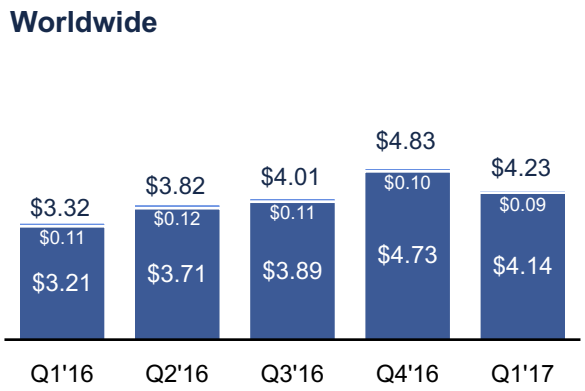
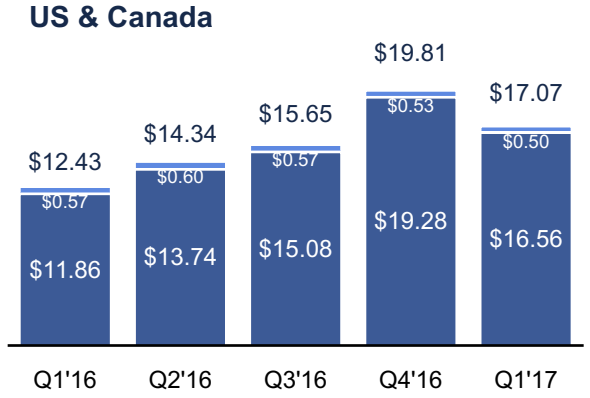
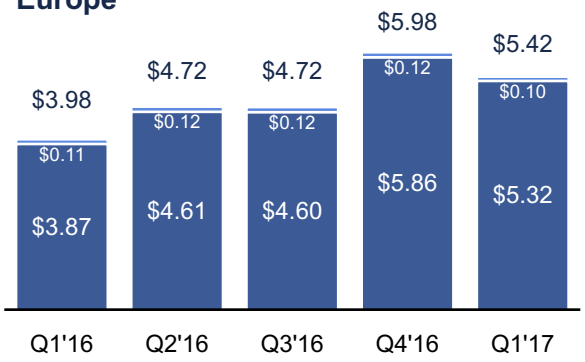
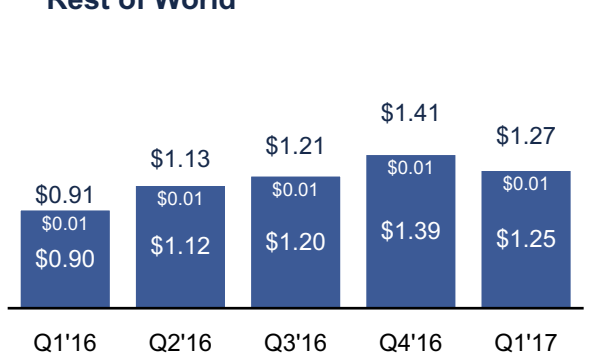
Average Revenue per User (ARPU)

- Payments and Other Fees
- Advertising









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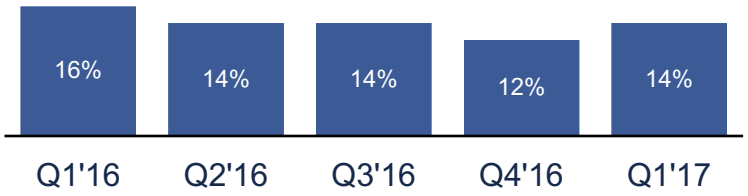
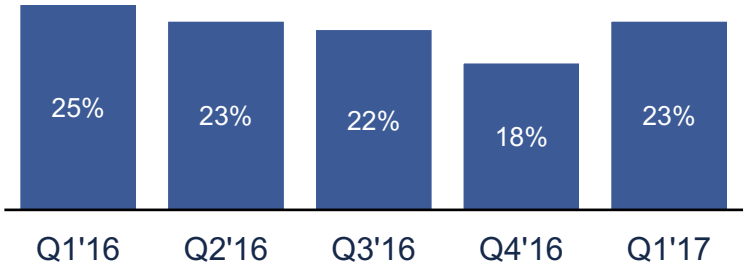
Expenses as a % of Revenue

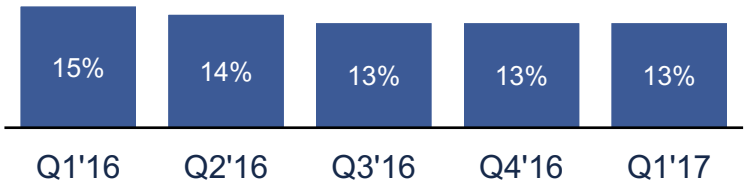
Cost of Revenue



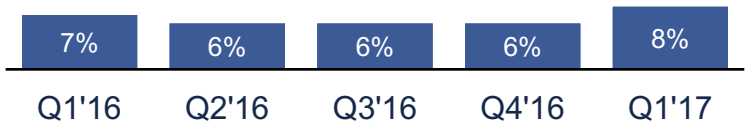
Research & Development



Marketing & Sales



General & Administrative



In the fourth quarter of 2016, we elected to early adopt the Financial Accounting Standards Board (FASB)'s Accounting Standards Update No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09). As such, quarterly expenses 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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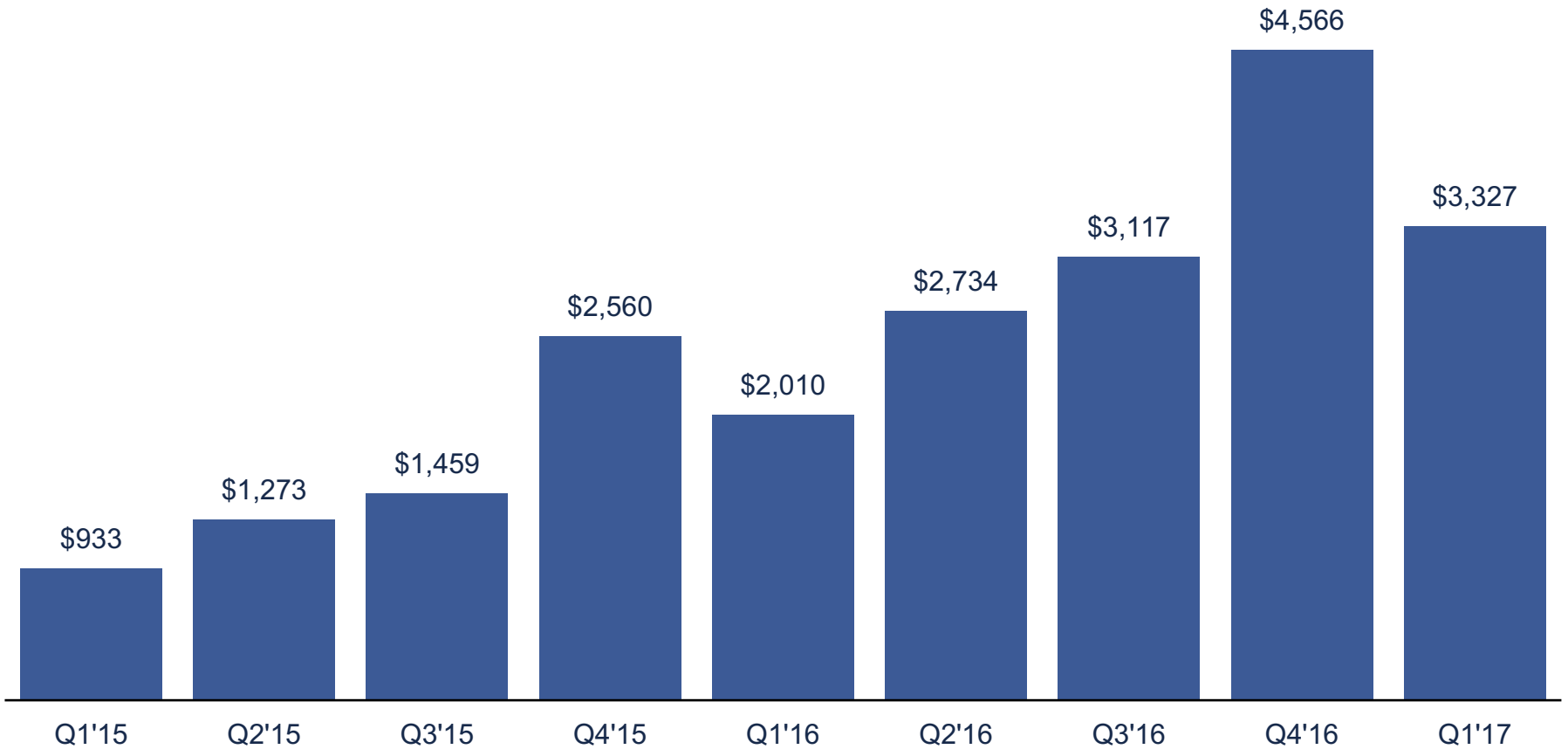
Income from Operations

In Millions



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

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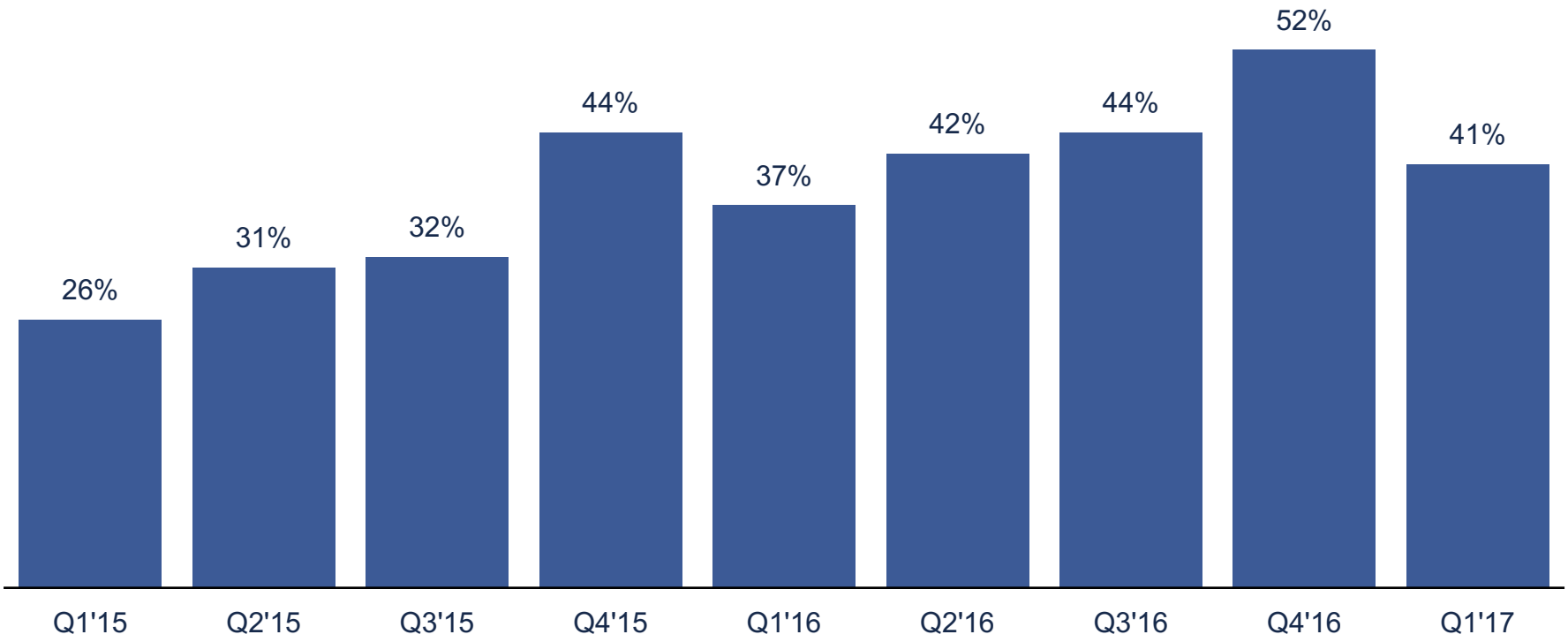
Operating Margin



In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, quarterly operating margin for and following 2016 includes 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)	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Income before provision for income taxes	$ 932	$ 1,273	$ 1,432	$ 2,557	$ 2,066	$ 2,754	$ 3,164	$ 4,533	$ 3,408
Provision for income taxes	420	554	536	995	328	471	537	965	344
Effective Tax Rate	**45%**	**44%**	**37%**	**39%**	**16%**	**17%**	**17%**	**21%**	**10%**

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

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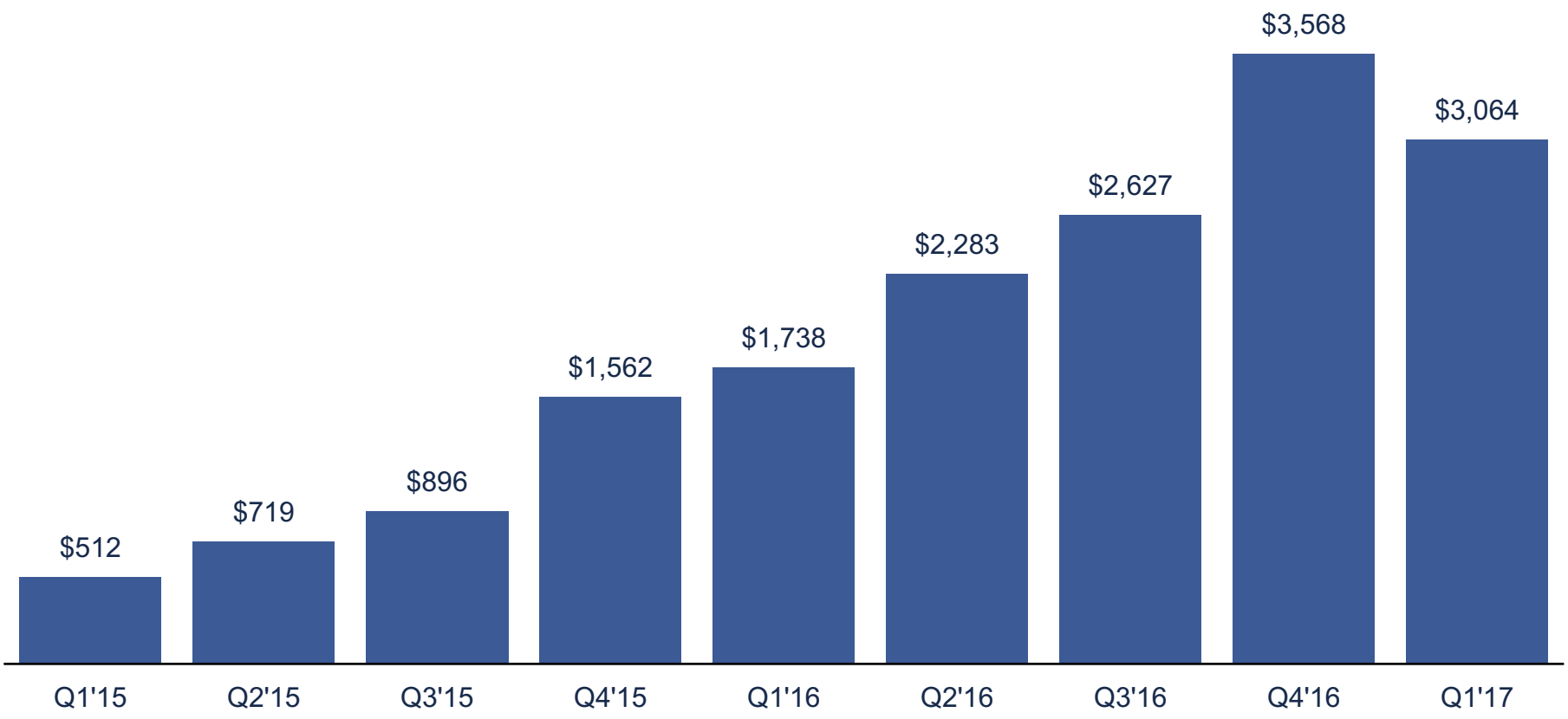
Net Income

In Millions



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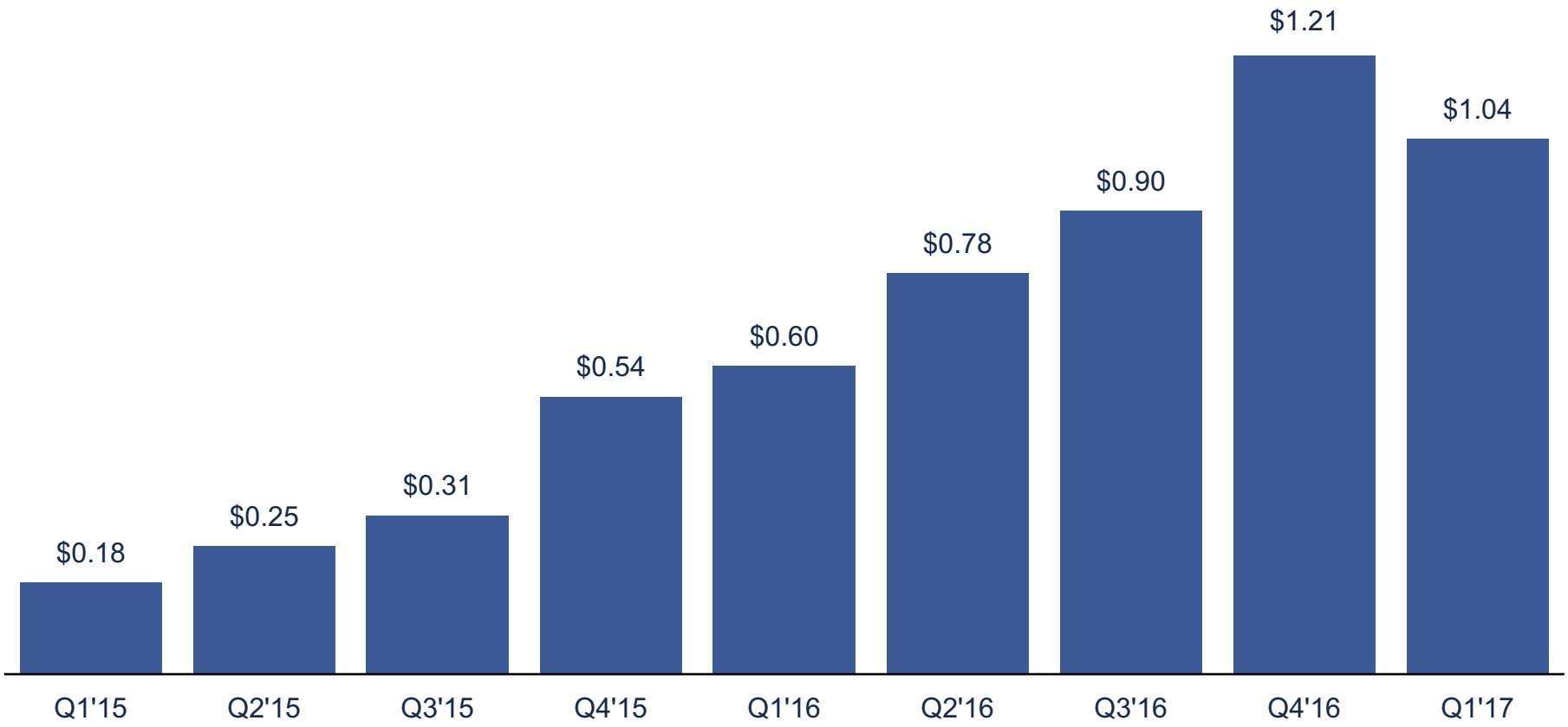
Diluted Earnings Per Share



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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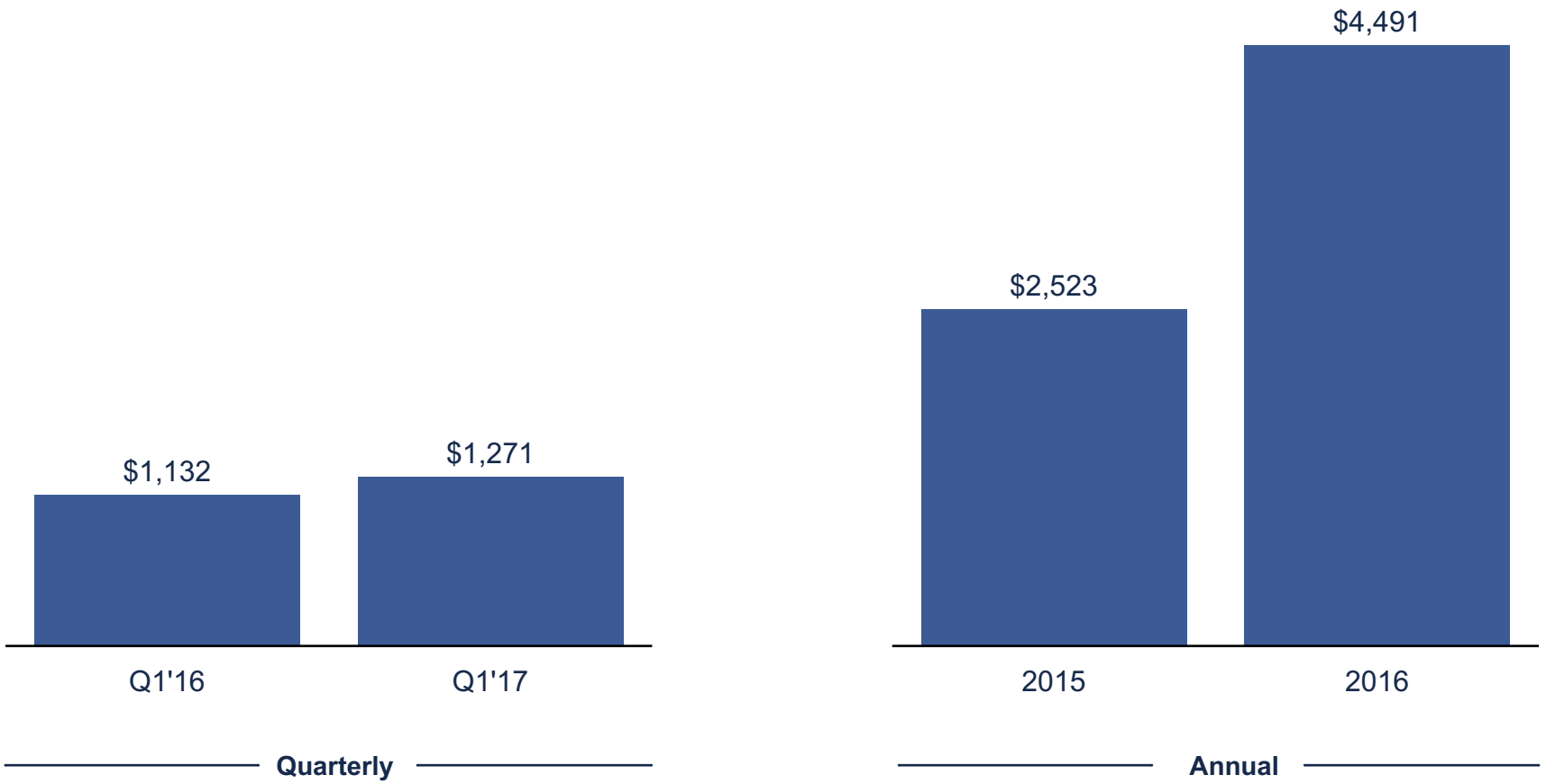
Capital Investments

In Millions



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

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 are required to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. Upon adoption, excess tax benefits generated when stock awards vest or settle are no longer recognized in equity but are 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 are 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 the prior periods have been reclassified to conform to the current year presentation.

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:

	March 31, 2016		June 30, 2016		September 30, 2016	
($ in millions)	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

	Three months ended March 31, 2016		Three months ended June 30, 2016		Three months ended September 30, 2016	
($ in millions)	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

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)

Free Cash Flow Reconciliation

($ in millions)	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Net cash provided by operating activities	$ 2,123	$ 2,266	$ 2,538	$ 3,393	$ 3,477	$ 3,665	$ 4,036	$ 4,930	$ 5,058
Purchases of property and equipment	502	549	780	692	1,132	995	1,095	1,269	1,271
Free Cash Flow	$ 1,621	$ 1,717	$ 1,758	$ 2,701	$ 2,345	$ 2,670	$ 2,941	$ 3,661	$ 3,787

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 include the impact from the adoption of ASU 2016-09. See ASU 2016-09 Adoption in this Appendix for additional information.

Free Cash Flow (FCF) 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.

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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. In 2016, we estimate that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented approximately 6% of our worldwide MAUs. We also seek to identify "false" accounts, which we divide 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. In 2016, for example, we estimate user-misclassified and undesirable accounts may have represented approximately 1% of our worldwide MAUs. We believe the percentage of accounts that are duplicate or false is meaningfully lower in developed markets such as the United States or United Kingdom and higher in developing markets such as India and Turkey. However, these estimates are based on an internal review of a limited sample of accounts and we apply significant judgment in making this determination, such as identifying 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 technologies, which may allow us to identify previously undetected false or duplicate accounts and 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.

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, we discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. 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 and ARPU 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 Quarterly Report on Form 10-Q, 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. In addition, other user engagement metrics included herein do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

Facebook Q1 2017 Results

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