

Facebook Q4 2016 Results

facebook

investor.fb.com

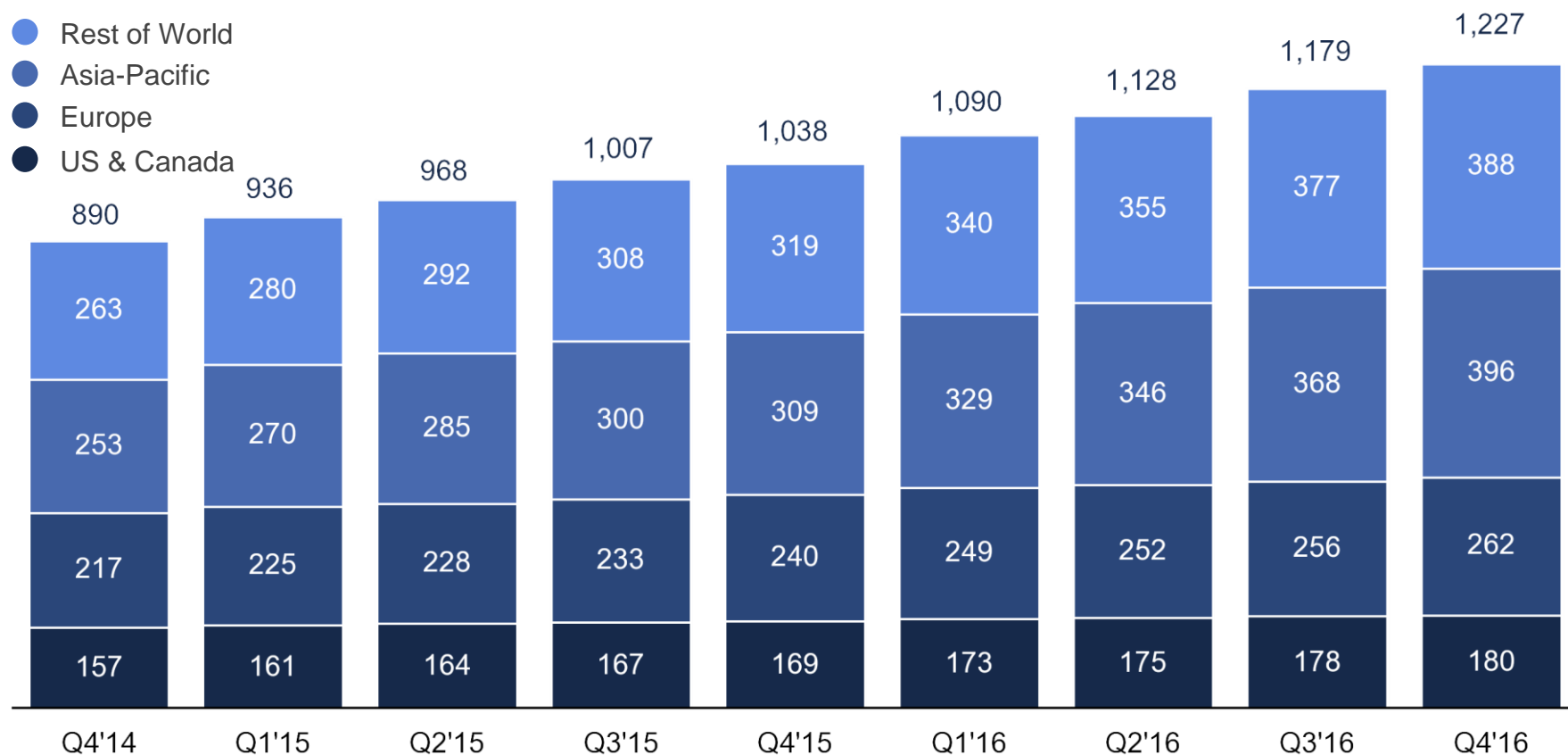
Non-GAAP Measures

In addition to U.S. GAAP financials, this presentation includes certain non-GAAP financial measures. These non-GAAP measures are in addition to, not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. A reconciliation of GAAP to non-GAAP results is provided in the appendix to this presentation.

Daily Active Users (DAUs)

In Millions

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



DAUs / MAUs

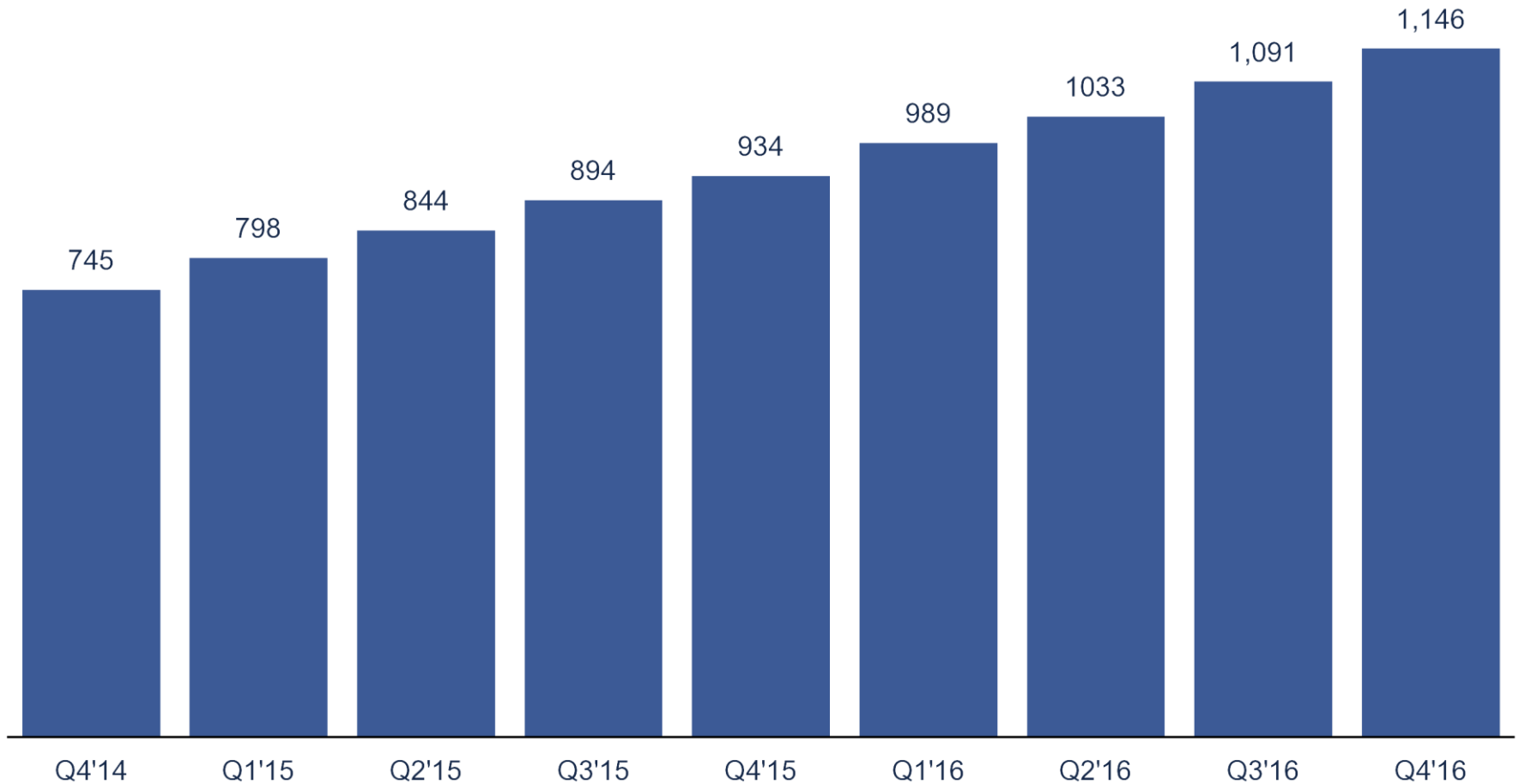
Quarter	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
DAUs / MAUs	64%	65%	65%	65%	65%	66%	66%	66%	66%

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.



Mobile Daily Active Users (Mobile DAUs)

In Millions



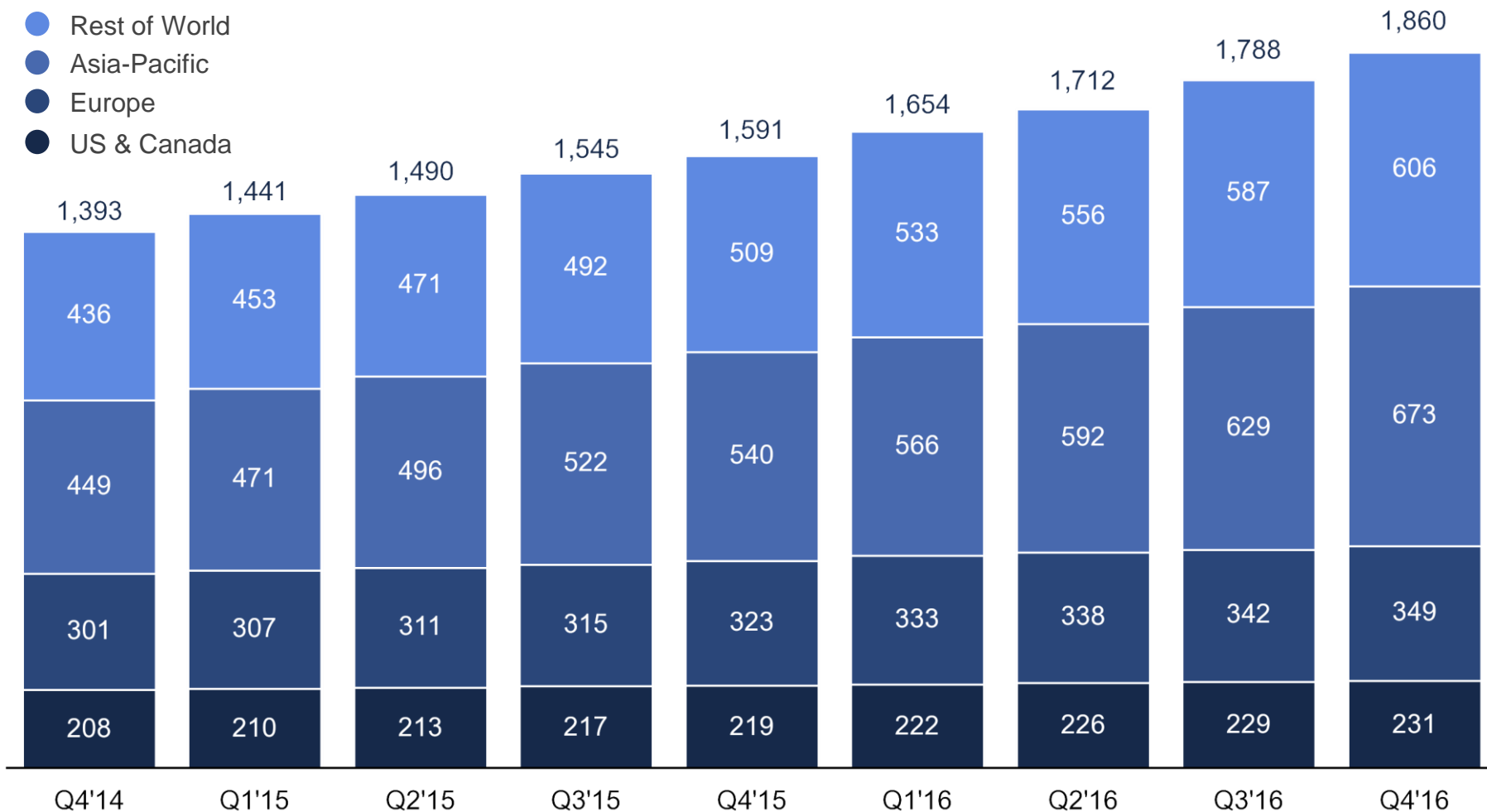
We define a mobile DAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) on a given day. The numbers for mobile DAUs 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

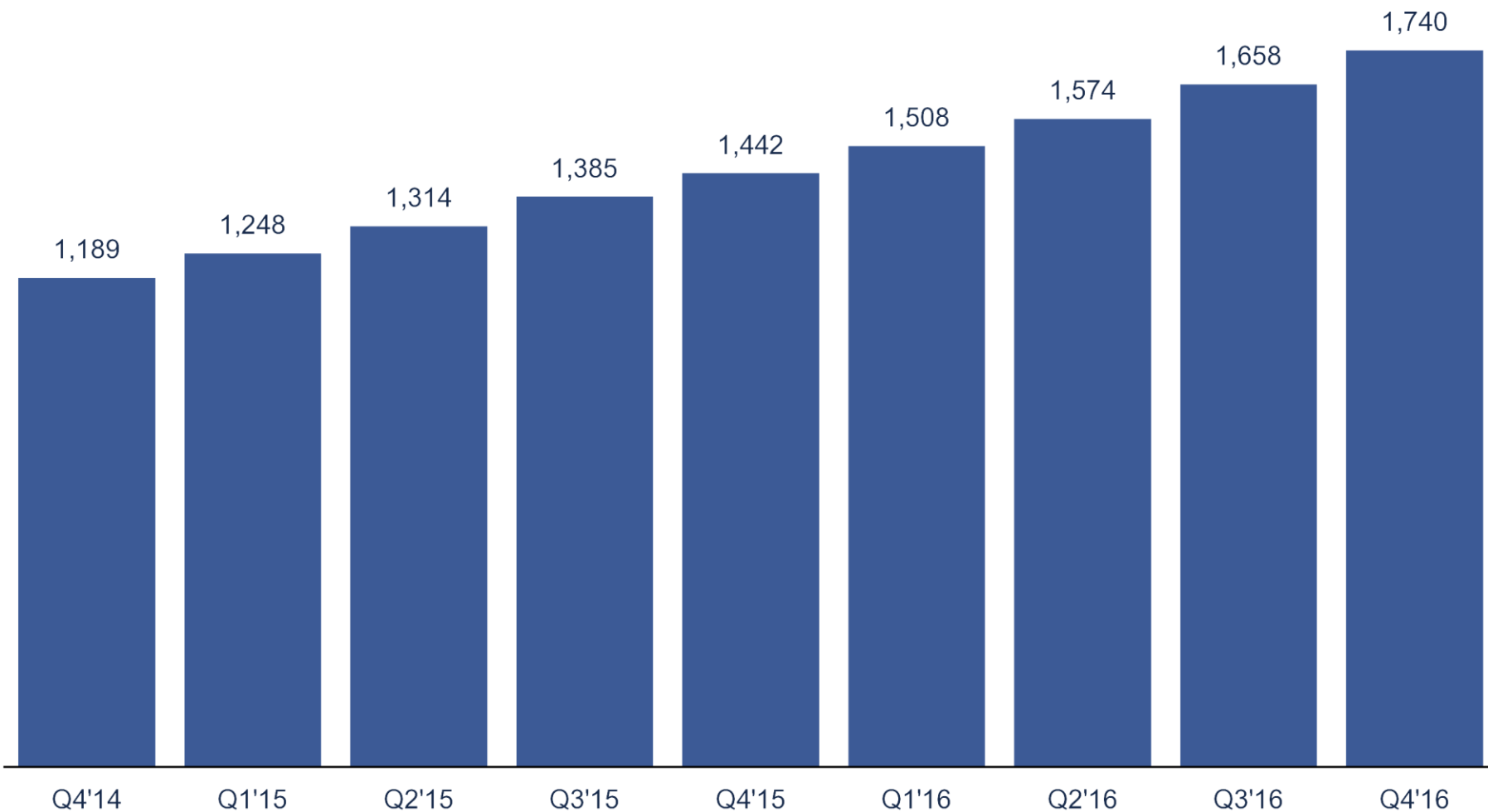


Please see Facebook's most recent quarterly and annual reports filed with the SEC for definitions of user activity used to determine the number of our DAUs and MAUs. The numbers for DAUs and MAUs do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively,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

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Mobile Monthly Active Users (Mobile MAUs)

In Millions

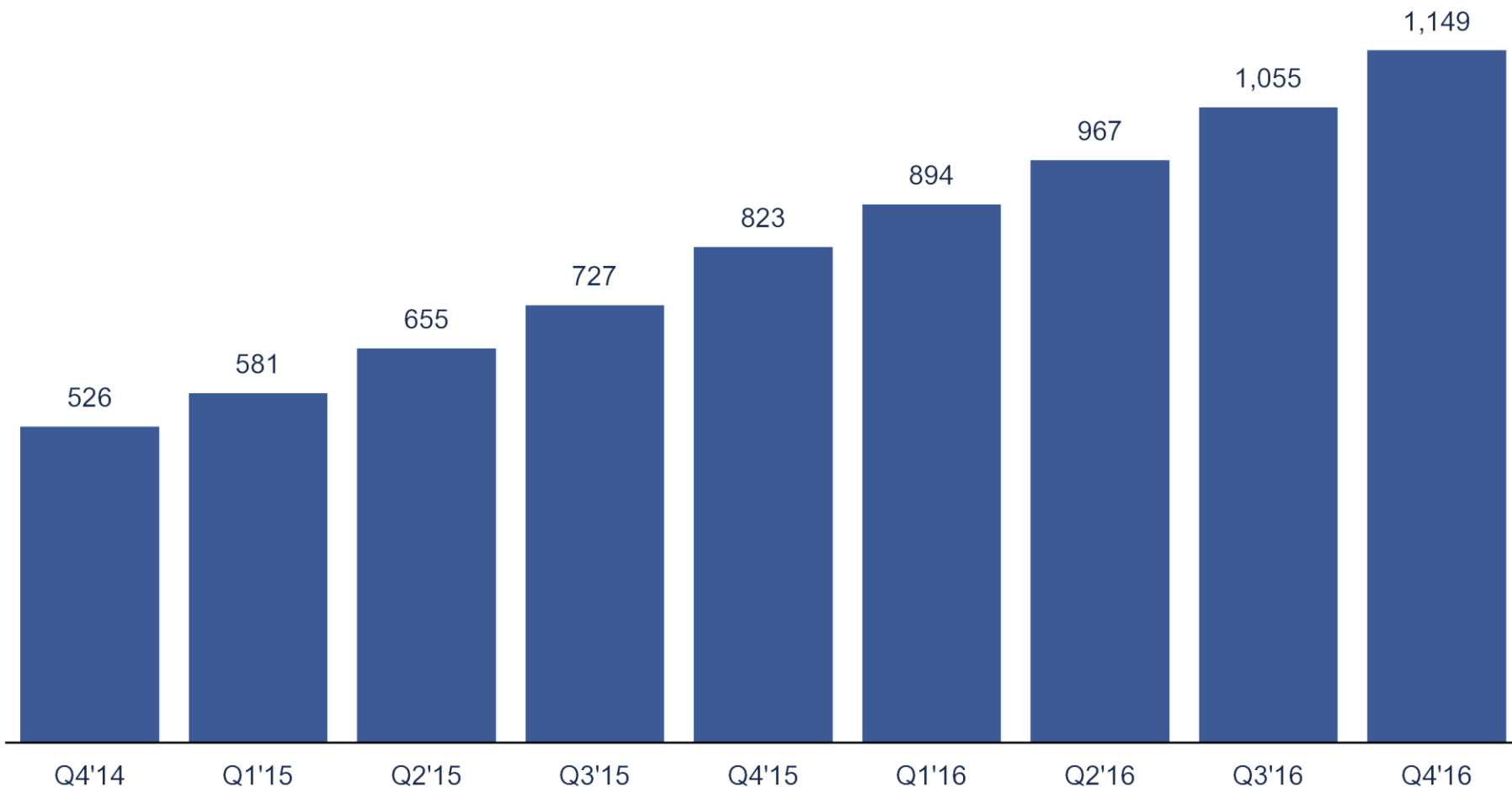


We define a mobile MAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) during the period of measurement. The numbers for mobile 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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Mobile-Only Monthly Active Users (Mobile-Only MAUs)

In Millions



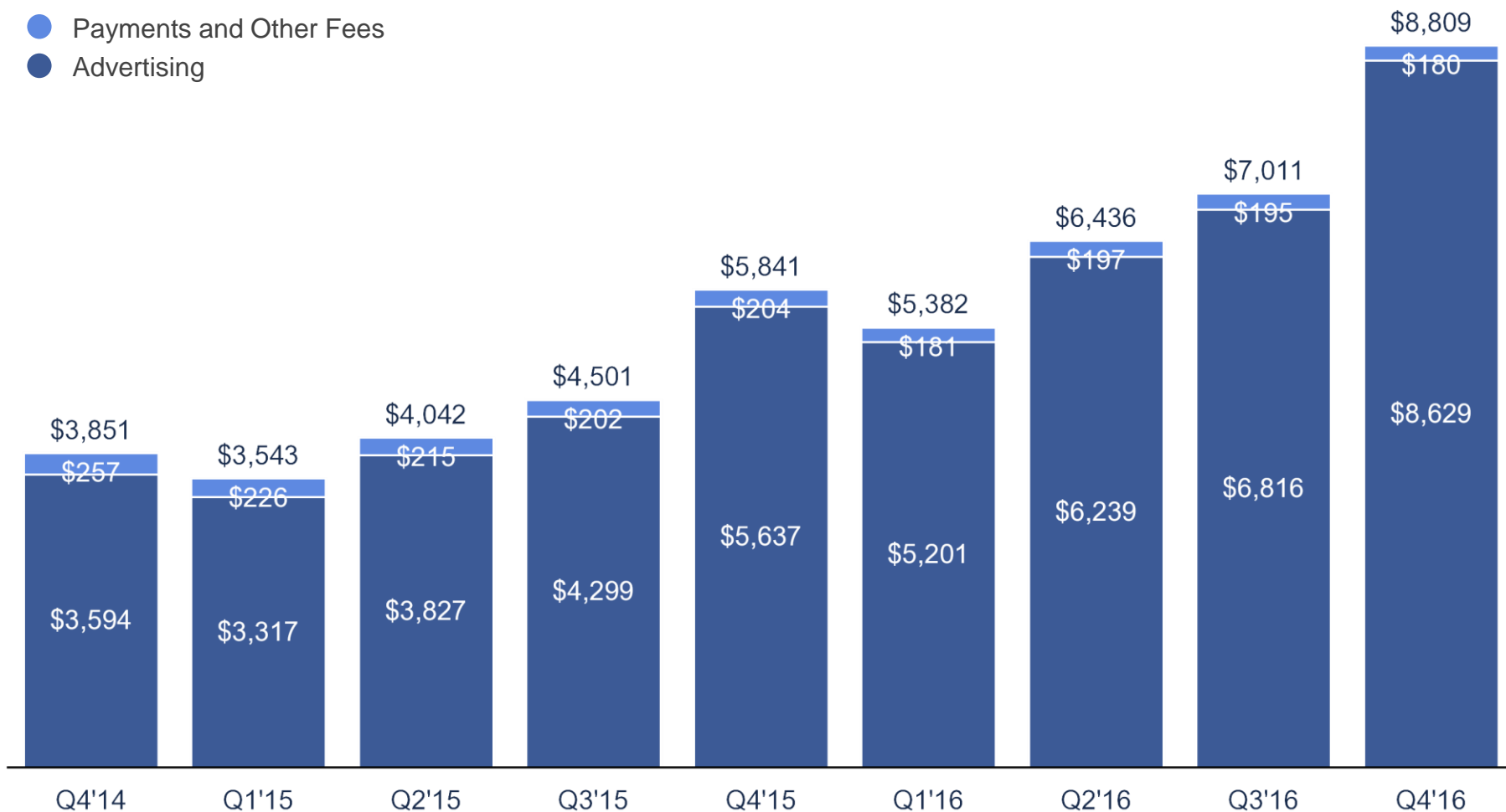
We define a mobile-only MAU as a user who accessed Facebook solely through mobile applications or mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) during the period of measurement. The numbers for mobile-only 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.



Revenue

In Millions

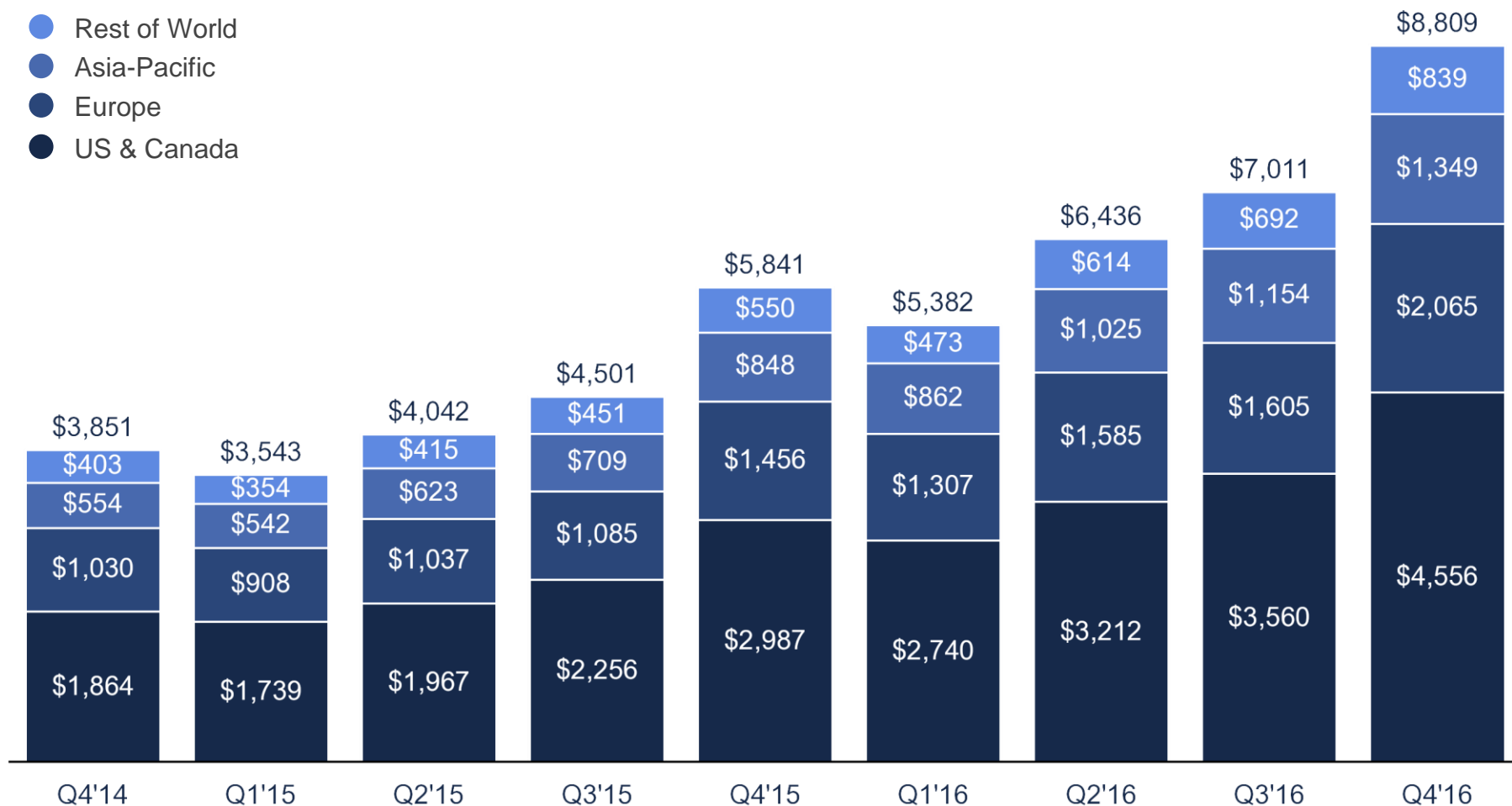
- Payments and Other Fees
- Advertising



Revenue by User Geography

In Millions

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



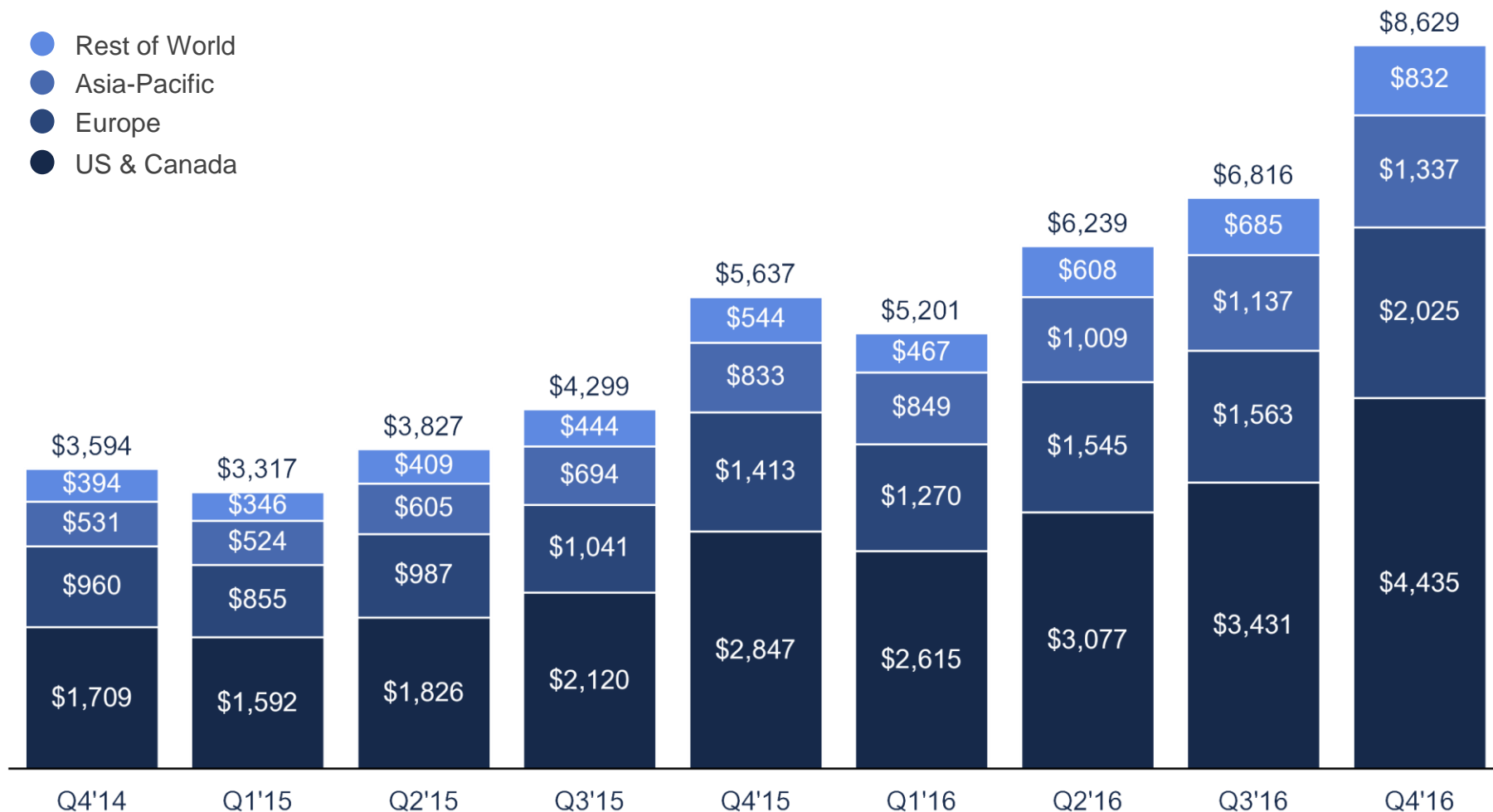
Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is 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 and ARPU amounts for all regions were adjusted to reflect this reclassification.

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Advertising Revenue by User Geography

In Millions

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



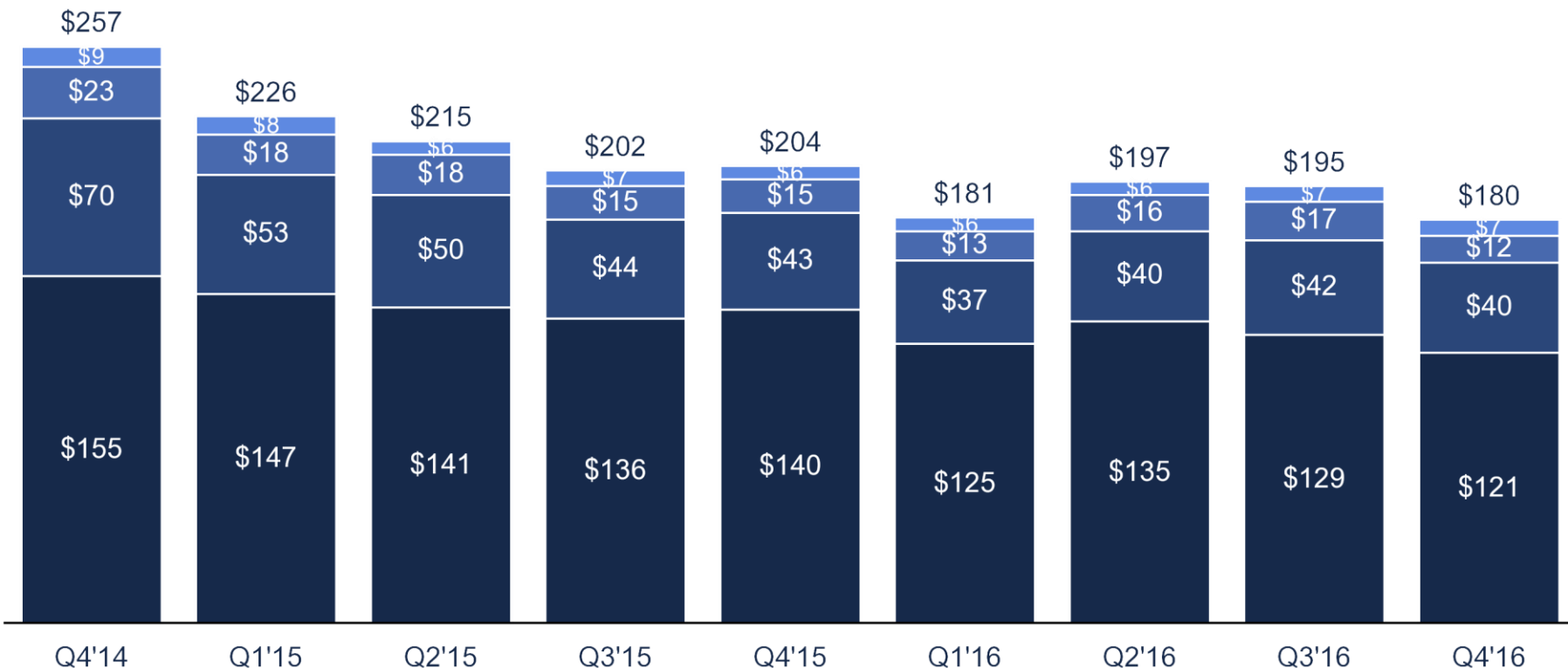
Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is 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 and ARPU amounts for all regions were 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



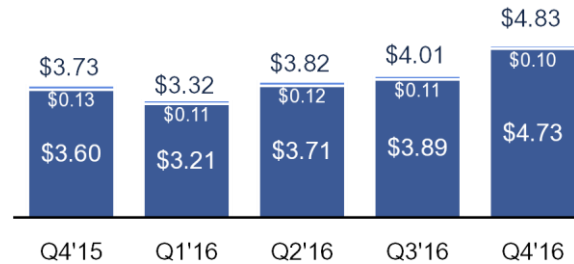
Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is 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 and ARPU amounts for all regions were adjusted to reflect this reclassification.



Average Revenue per User (ARPU)

- Payments and Other Fees
- Advertising

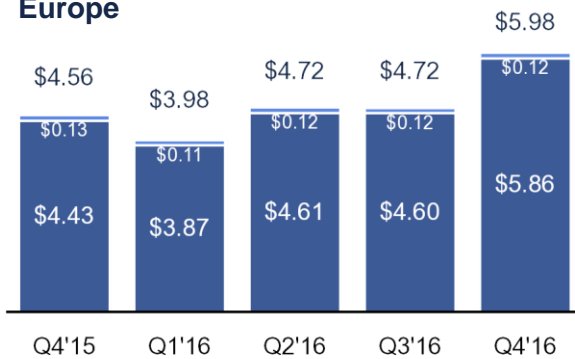
Worldwide



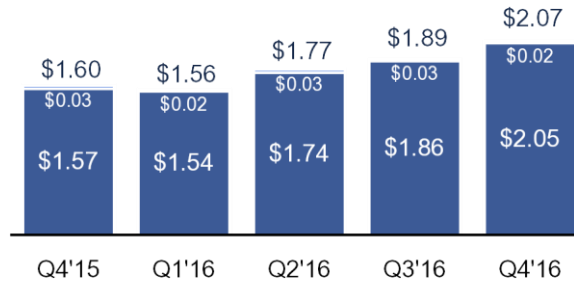
US & Canada



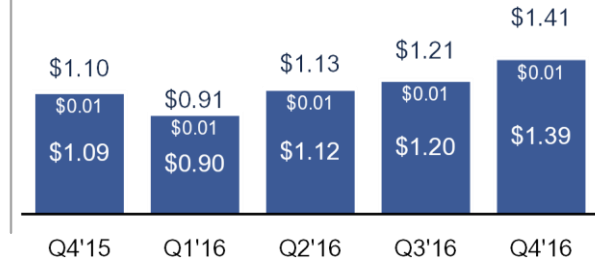
Europe



Asia-Pacific



Rest of World

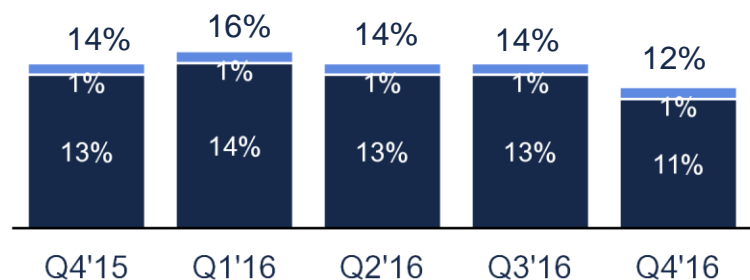


Revenue by user geography is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. Please see Facebook's most recent quarterly and annual reports filed with the SEC for the definition of ARPU. 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 for all regions were adjusted to reflect this reclassification.

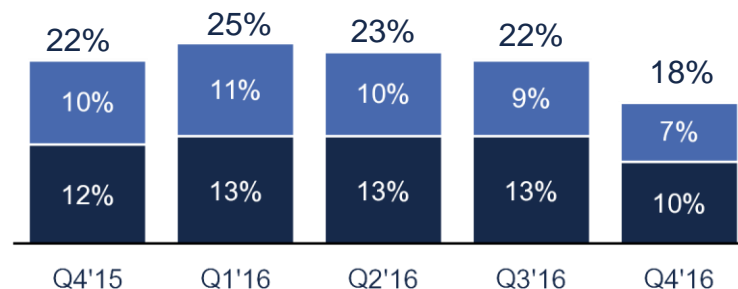
Expenses as a % of Revenue

- Amortization of intangibles
- Share-based compensation + payroll tax expenses related to share-based compensation
- All other expenses

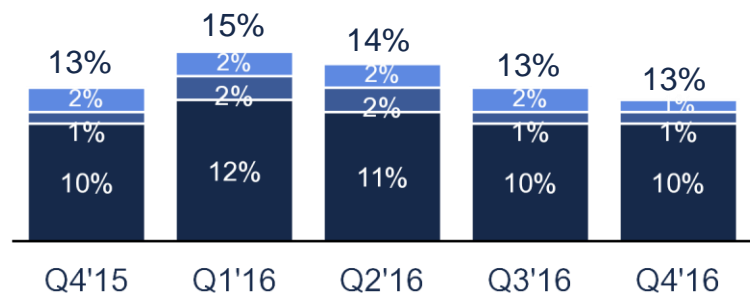
Cost of Revenue



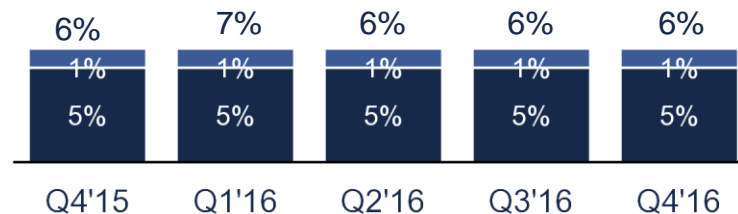
Research & Development



Marketing & Sales



General & Administrative

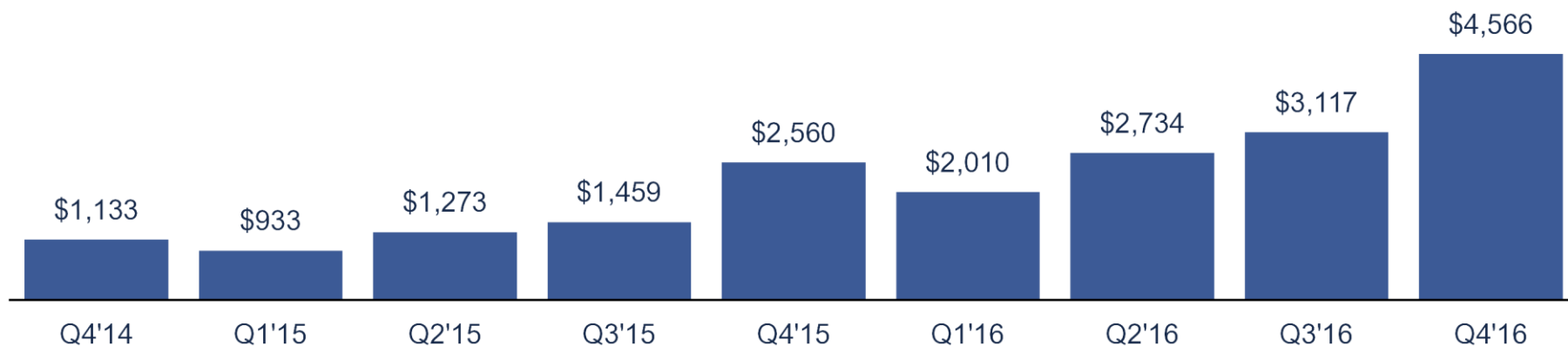


In the fourth quarter of 2016, we elected to early adopt the Financial Accounting Standards Board (FASB)'s Accounting Standards Update No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09). Therefore, 2016 quarterly share-based compensation expense includes the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information related to this adoption.

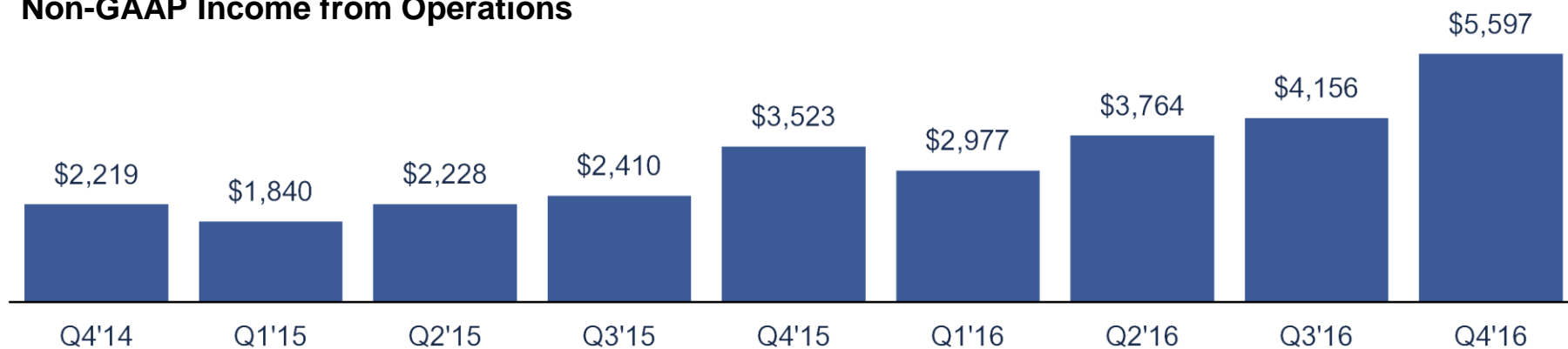
Income from Operations

In Millions

GAAP Income from Operations



Non-GAAP Income from Operations



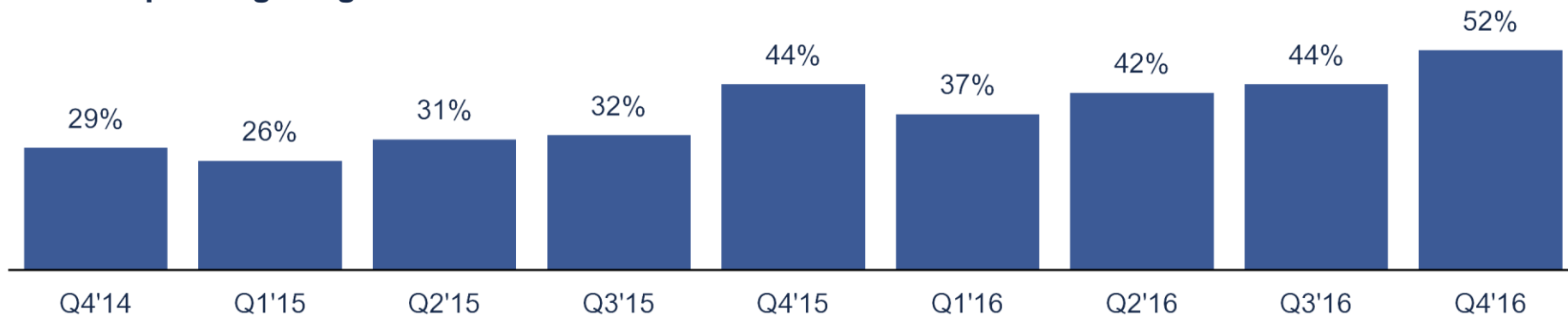
In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, 2016 quarterly GAAP income from operations data includes the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information related to this adoption.

Non-GAAP income from operations excludes share-based compensation expense, payroll tax expenses related to share-based compensation, and amortization of intangibles-see the Appendix for a reconciliation of GAAP to Non-GAAP results.

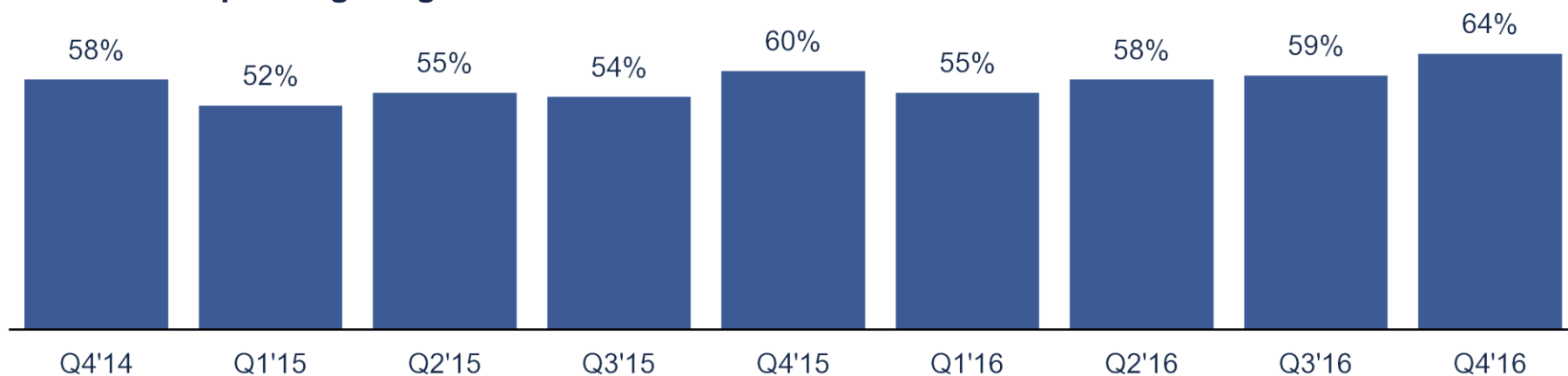
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Operating Margin

GAAP Operating Margin



Non-GAAP Operating Margin



In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, 2016 quarterly GAAP operating margin data includes the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information related to this adoption.

Non-GAAP operating margin excludes share-based compensation expense, payroll tax expenses related to share-based compensation, and amortization of intangibles-see the Appendix for a reconciliation of GAAP to Non-GAAP results.

Effective Tax Rate

GAAP Effective Tax Rate

(In millions, except percentages)

	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
GAAP income before provision for income taxes	\$ 1,114	\$ 932	\$ 1,273	\$ 1,432	\$ 2,557	\$ 2,066	\$ 2,754	\$ 3,164	\$ 4,533
GAAP provision for income taxes	413	420	554	536	995	328	471	537	965
GAAP Effective Tax Rate	37%	45%	44%	37%	39%	16%	17%	17%	21%

Non-GAAP Effective Tax Rate

(In millions, except percentages)

	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
Non-GAAP income before provision for income taxes	\$ 2,200	\$ 1,839	\$ 2,228	\$ 2,383	\$ 3,520	\$ 3,033	\$ 3,784	\$ 4,203	\$ 5,564
Non-GAAP provision for income taxes	682	650	791	755	1,255	804	963	1,035	1,414
Non-GAAP Effective Tax Rate	31%	35%	36%	32%	36%	27%	25%	25%	25%

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

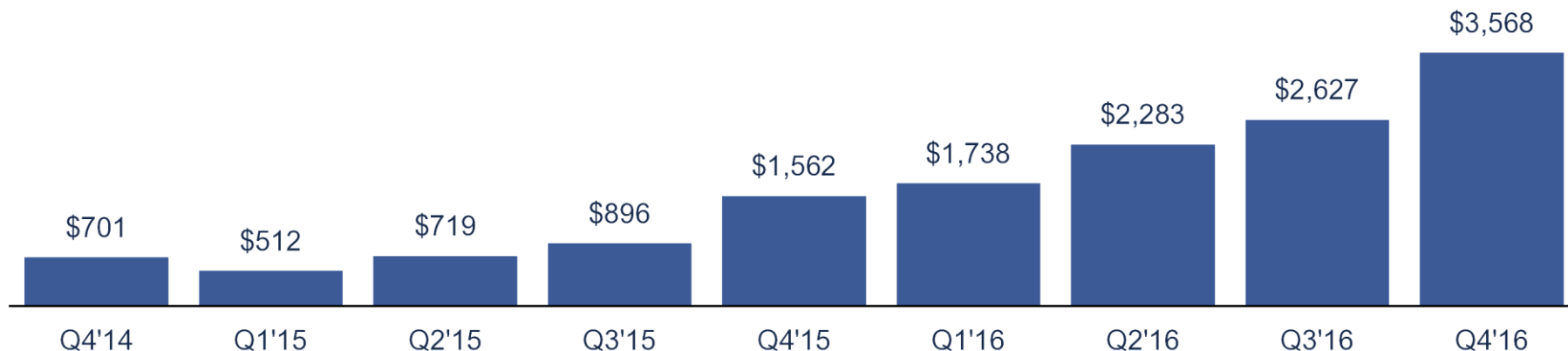
Non-GAAP effective tax rate excludes share-based compensation expense, payroll tax expenses related to share-based compensation, amortization of intangibles, and related income tax adjustments-see the Appendix for a reconciliation of GAAP to Non-GAAP results.

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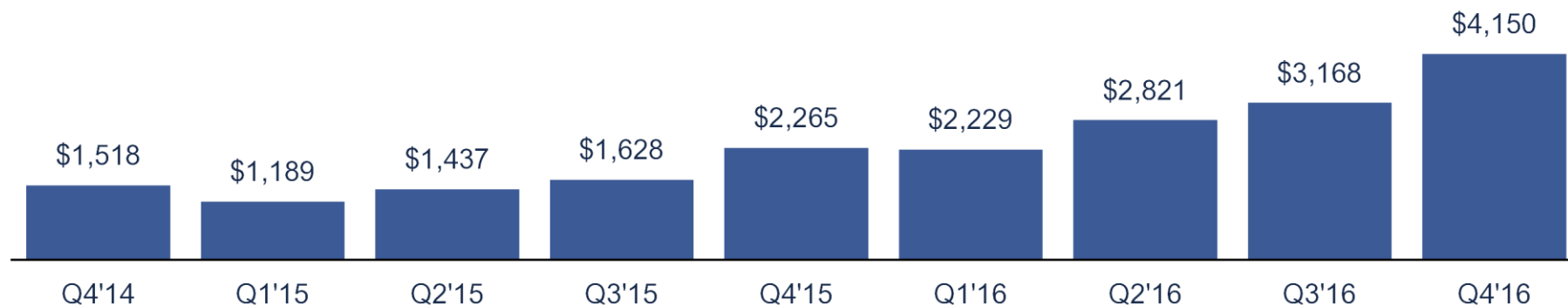
Net Income

In Millions

GAAP Net Income



Non-GAAP Net Income



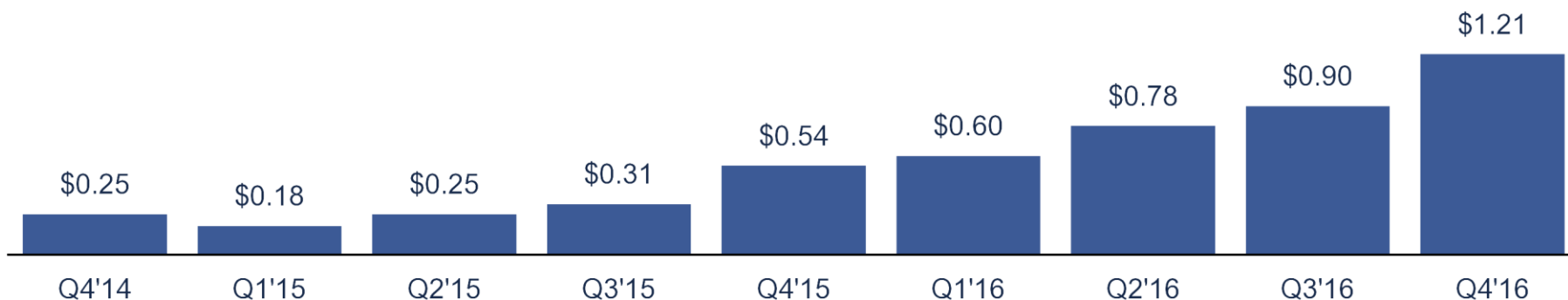
In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, 2016 quarterly GAAP net income includes the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information related to this adoption.

Non-GAAP net income excludes share-based compensation expense, payroll tax expenses related to share-based compensation, amortization of intangibles, and related income tax adjustments-see the Appendix for a reconciliation of GAAP to Non-GAAP results.

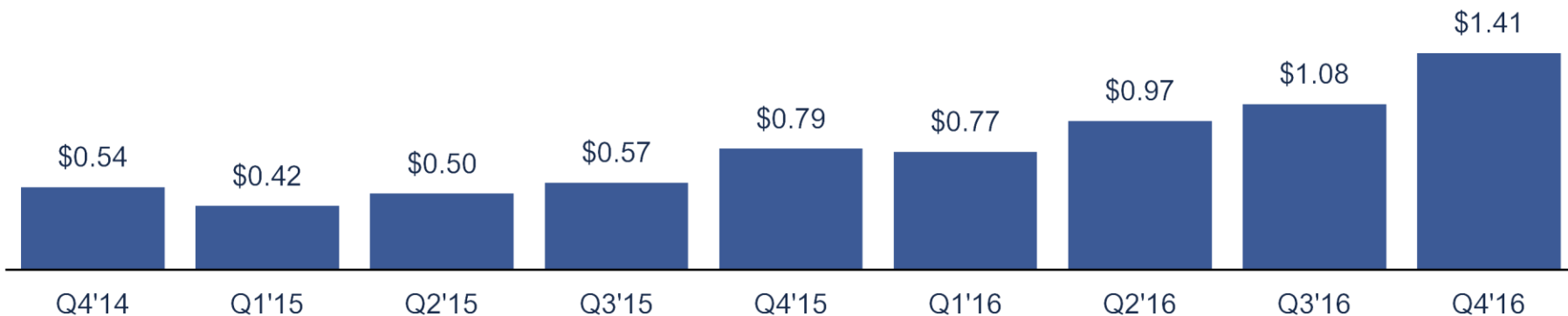
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Diluted Earnings Per Share

GAAP Diluted Earnings Per Share



Non-GAAP Diluted Earnings Per Share

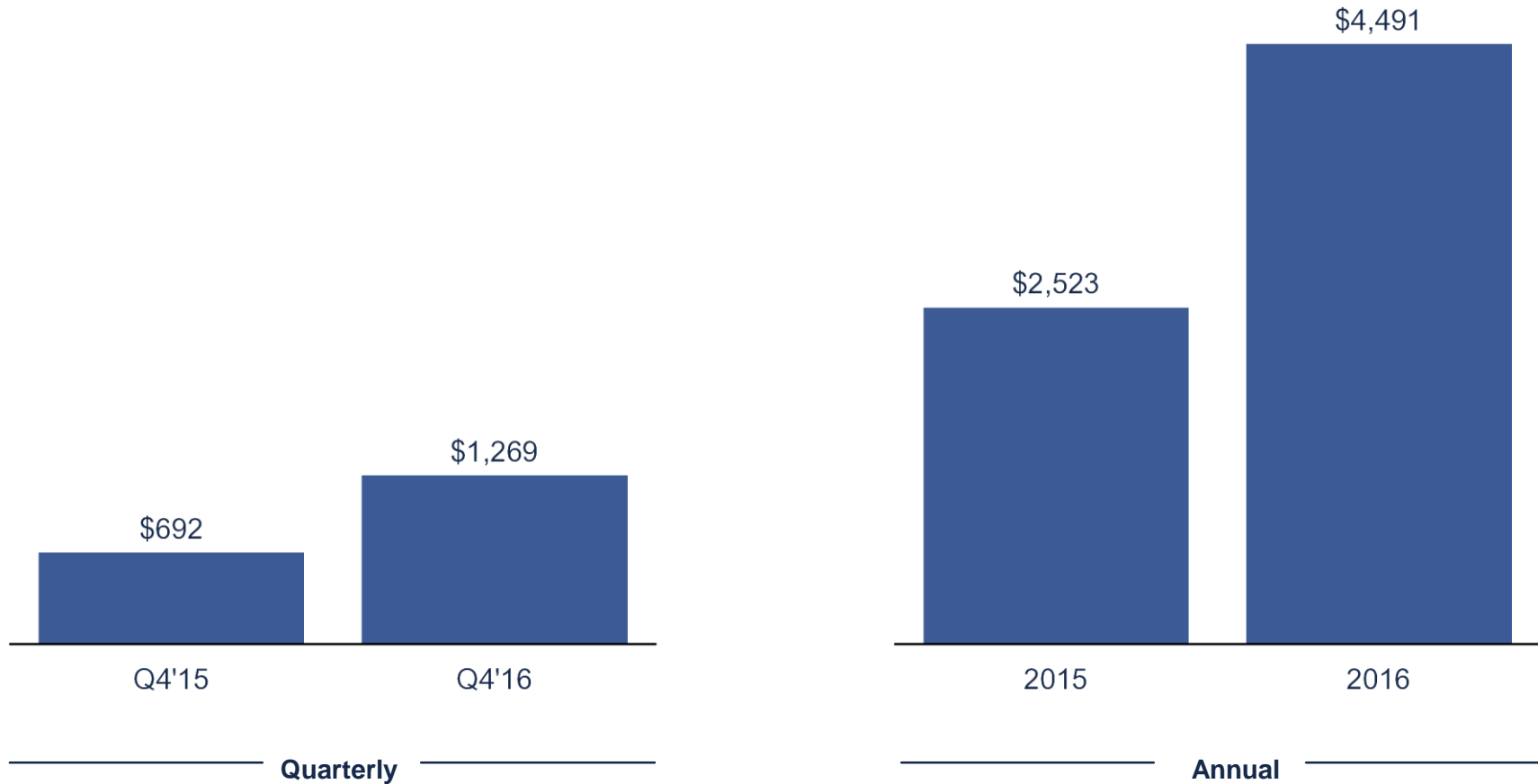


In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. As such, 2016 quarterly GAAP diluted earnings per share include the impact of the ASU 2016-09 adoption. See ASU 2016-09 Adoption in the Appendix for additional information related to this adoption.

Non-GAAP diluted earnings per share excludes share-based compensation expense, payroll tax expenses related to share-based compensation, amortization of intangibles, and related income tax adjustments—see the Appendix for a reconciliation of GAAP to Non-GAAP results.

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:

(\$ 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)	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

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)

Reconciliations

Income from Operations (\$ in millions)	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP income from operations	\$ 1,133	\$ 933	\$ 1,273	\$ 1,459	\$ 2,560	\$ 2,010	\$ 2,734	\$ 3,117	\$ 4,566
Share-based compensation expense	896	703	763	757	746	746	817	824	831
Payroll tax expenses related to share-based compensation	13	25	12	14	26	41	20	20	17
Amortization of intangible assets	177	179	180	180	191	180	193	195	183
Non-GAAP income from operations	\$ 2,219	\$ 1,840	\$ 2,228	\$ 2,410	\$ 3,523	\$ 2,977	\$ 3,764	\$ 4,156	\$ 5,597
Operating Margin	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP operating margin	29%	26%	31%	32%	44%	37%	42%	44%	52%
Share-based compensation expense	23%	20%	19%	17%	13%	14%	13%	12%	9%
Payroll tax expenses related to share-based compensation	—%	1%	—%	—%	—%	1%	—%	—%	—%
Amortization of intangible assets	5%	5%	4%	4%	3%	3%	3%	3%	2%
Non-GAAP operating margin	58%	52%	55%	54%	60%	55%	58%	59%	64%
Net Income (\$ in millions)	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP net income	\$ 701	\$ 512	\$ 719	\$ 896	\$ 1,562	\$ 1,738	\$ 2,283	\$ 2,627	\$ 3,568
Share-based compensation expense	896	703	763	757	746	746	817	824	831
Payroll tax expenses related to share-based compensation	13	25	12	14	26	41	20	20	17
Amortization of intangible assets	177	179	180	180	191	180	193	195	183
Income tax adjustments	(269)	(230)	(237)	(219)	(260)	(476)	(492)	(498)	(449)
Non-GAAP net income	\$ 1,518	\$ 1,189	\$ 1,437	\$ 1,628	\$ 2,265	\$ 2,229	\$ 2,821	\$ 3,168	\$ 4,150
Diluted Earnings Per Share	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP diluted earnings per share	\$ 0.25	\$ 0.18	\$ 0.25	\$ 0.31	\$ 0.54	\$ 0.60	\$ 0.78	\$ 0.90	\$ 1.21
Non-GAAP adjustments to net income	0.29	0.24	0.25	0.26	0.25	0.17	0.19	0.18	0.20
Non-GAAP diluted earnings per share	\$ 0.54	\$ 0.42	\$ 0.50	\$ 0.57	\$ 0.79	\$ 0.77	\$ 0.97	\$ 1.08	\$ 1.41

(1) In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. We have properly reflected the impact of the adoption in certain 2016 quarterly results of operations data. See ASU 2016-09 Adoption in this Appendix for additional information related to this adoption.

Reconciliations (continued)

GAAP Tax (\$ in millions)	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP income before provision for income taxes	\$ 1,114	\$ 932	\$ 1,273	\$ 1,432	\$ 2,557	\$ 2,066	\$ 2,754	\$ 3,164	\$ 4,533
GAAP provision for income taxes	413	420	554	536	995	328	471	537	965
GAAP Effective Tax Rate	37%	45%	44%	37%	39%	16%	17%	17%	21%

Non-GAAP Tax (\$ in millions)	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16⁽¹⁾	Q2'16⁽¹⁾	Q3'16⁽¹⁾	Q4'16⁽¹⁾
GAAP income before provision for income taxes	\$ 1,114	\$ 932	\$ 1,273	\$ 1,432	\$ 2,557	\$ 2,066	\$ 2,754	\$ 3,164	\$ 4,533
Share-based compensation and related payroll tax expenses	909	728	775	771	772	787	837	844	848
Amortization of intangible assets	177	179	180	180	191	180	193	195	183
Non-GAAP income before provision for income taxes	\$ 2,200	\$ 1,839	\$ 2,228	\$ 2,383	\$ 3,520	\$ 3,033	\$ 3,784	\$ 4,203	\$ 5,564
Non-GAAP provision for income taxes	682	650	791	755	1,255	804	963	1,035	1,414
Non-GAAP Effective Tax Rate	31%	35%	36%	32%	36%	27%	25%	25%	25%

(1) In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. We have properly reflected the impact of the adoption in certain 2016 quarterly results of operations data. See ASU 2016-09 Adoption in this Appendix for additional information related to this adoption.

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Reconciliations (continued)

Free Cash Flow (\$ in millions)	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
Net cash provided by operating activities	\$ 2,087	\$ 2,123	\$ 2,266	\$ 2,538	\$ 3,393	\$ 3,477	\$ 3,665	\$ 4,036	\$ 4,930
Purchases of property and equipment	517	502	549	780	692	1,132	995	1,095	1,269
Free Cash Flow	\$ 1,570	\$ 1,621	\$ 1,717	\$ 1,758	\$ 2,701	\$ 2,345	\$ 2,670	\$ 2,941	\$ 3,661

In the fourth quarter of 2016, we elected to early adopt ASU 2016-09. We have properly reflected the impact of the adoption in quarterly net cash provided by operating activities and free cash flows for all periods presented. See ASU 2016-09 Adoption in this Appendix for additional information related to this adoption.

Limitations of Key Metrics and Other Data

The numbers for our key metrics, which include our daily active users (DAUs), mobile DAUs, monthly active users (MAUs), mobile MAUs, and average revenue per user (ARPU), as well as certain metrics such as mobile-only MAUs, 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. For example, the number of duplicate or false accounts maintained by users in violation of our terms of service may change as our methodologies evolve. 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. 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, mobile DAUs, MAUs, mobile MAUs, and mobile-only 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.

Facebook Q4 2016 Results

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