Facebook Q3 2016 Results

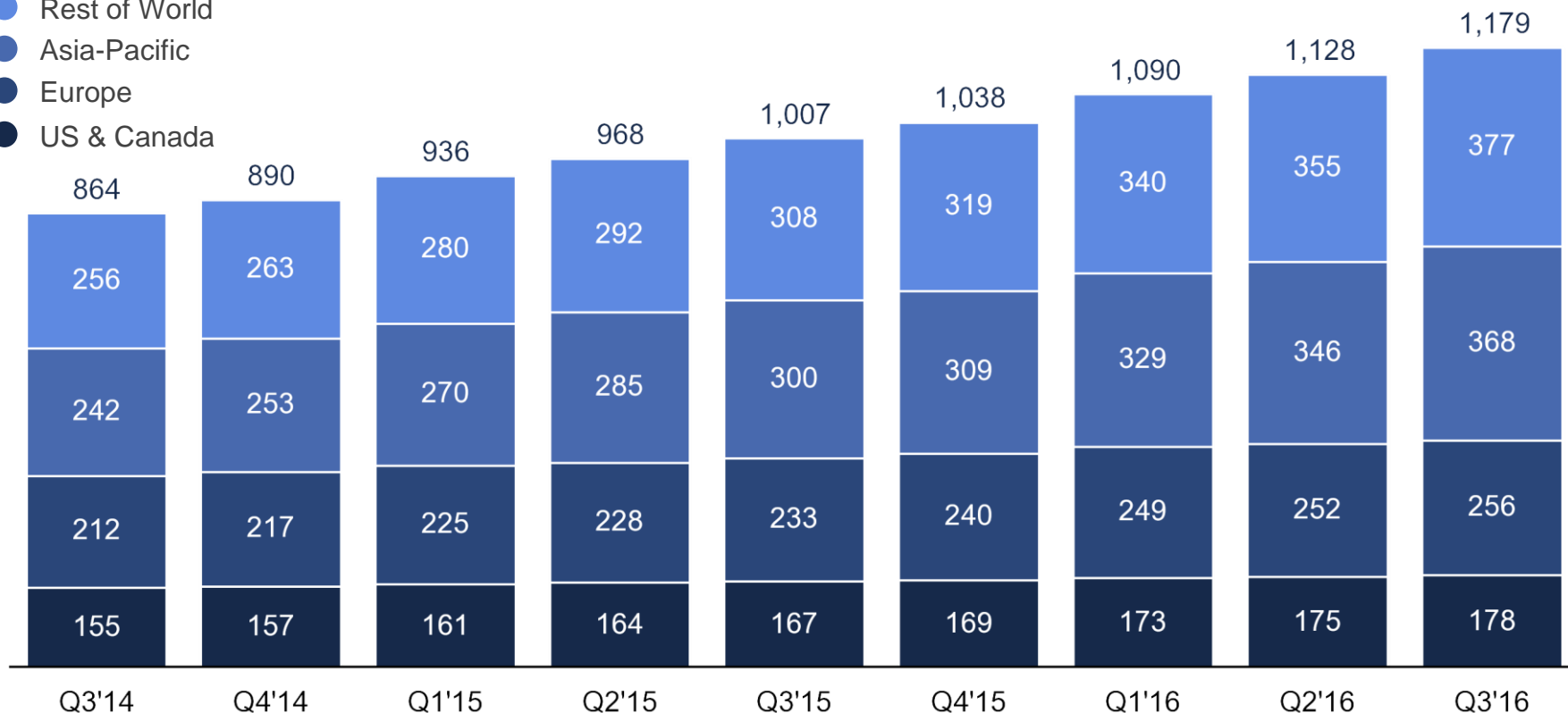**facebook**

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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.

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Daily Active Users (DAUs)

In Millions

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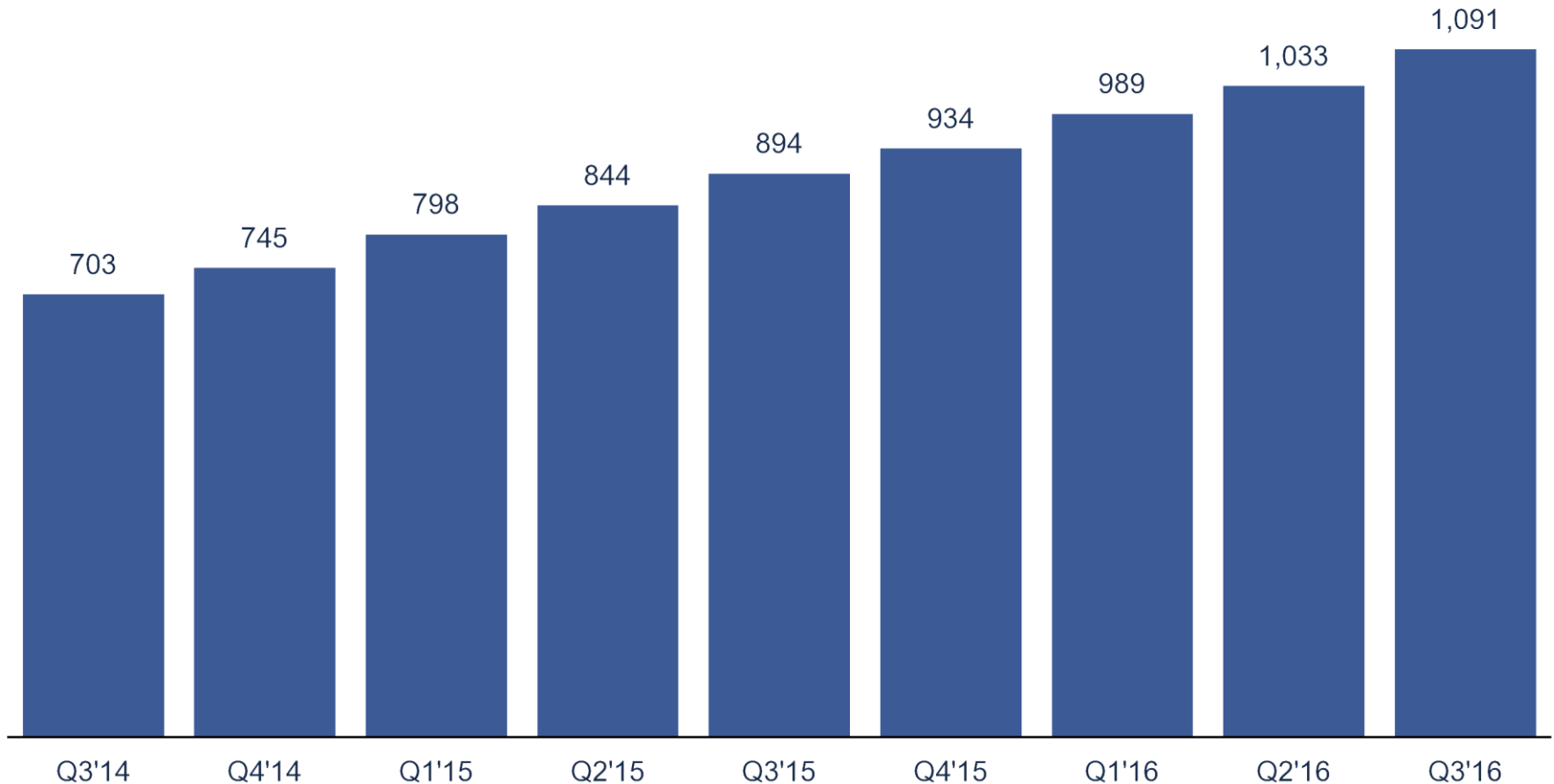- ● Asia-Pacific
- ● Europe
- ● US & Canada

	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	864	890	936	968	1,007	1,038	1,090	1,128	1,179
Rest of World	256	263	280	292	308	319	340	355	377
Asia-Pacific	242	253	270	285	300	309	329	346	368
Europe	212	217	225	228	233	240	249	252	256
US & Canada	155	157	161	164	167	169	173	175	178

DAUs / MAUs

Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
64%	64%	65%	65%	65%	65%	66%	66%	66%

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Mobile Daily Active Users (Mobile DAUs)

In Millions

Quarter	Mobile DAUs
Q3'14	703
Q4'14	745
Q1'15	798
Q2'15	844
Q3'15	894
Q4'15	934
Q1'16	989
Q2'16	1,033
Q3'16	1,091

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Monthly Active Users (MAUs)

In Millions

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

	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	1,350	1,393	1,441	1,490	1,545	1,591	1,654	1,712	1,788
Rest of World	423	436	453	471	492	509	533	556	587
Asia-Pacific	426	449	471	496	522	540	566	592	629
Europe	296	301	307	311	315	323	333	338	342
US & Canada	206	208	210	213	217	219	222	226	229

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Mobile Monthly Active Users (Mobile MAUs)

In Millions

Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
1,124	1,189	1,248	1,314	1,385	1,442	1,508	1,574	1,658

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Mobile-Only Monthly Active Users (Mobile-Only MAUs)
In Millions

Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
456	526	581	655	727	823	894	967	1,055

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Revenue by User Geography
In Millions

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

Q3'14 — $3,203
- Rest of World: $353
- Asia-Pacific: $492
- Europe: $844
- US & Canada: $1,514

Q4'14 — $3,851
- Rest of World: $403
- Asia-Pacific: $554
- Europe: $1,030
- US & Canada: $1,864

Q1'15 — $3,543
- Rest of World: $354
- Asia-Pacific: $542
- Europe: $908
- US & Canada: $1,739

Q2'15 — $4,042
- Rest of World: $415
- Asia-Pacific: $623
- Europe: $1,037
- US & Canada: $1,967

Q3'15 — $4,501
- Rest of World: $451
- Asia-Pacific: $709
- Europe: $1,085
- US & Canada: $2,256

Q4'15 — $5,841
- Rest of World: $550
- Asia-Pacific: $848
- Europe: $1,456
- US & Canada: $2,987

Q1'16 — $5,382
- Rest of World: $473
- Asia-Pacific: $862
- Europe: $1,307
- US & Canada: $2,740

Q2'16 — $6,436
- Rest of World: $614
- Asia-Pacific: $1,025
- Europe: $1,585
- US & Canada: $3,212

Q3'16 — $7,011
- Rest of World: $692
- Asia-Pacific: $1,154
- Europe: $1,605
- US & Canada: $3,560

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

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

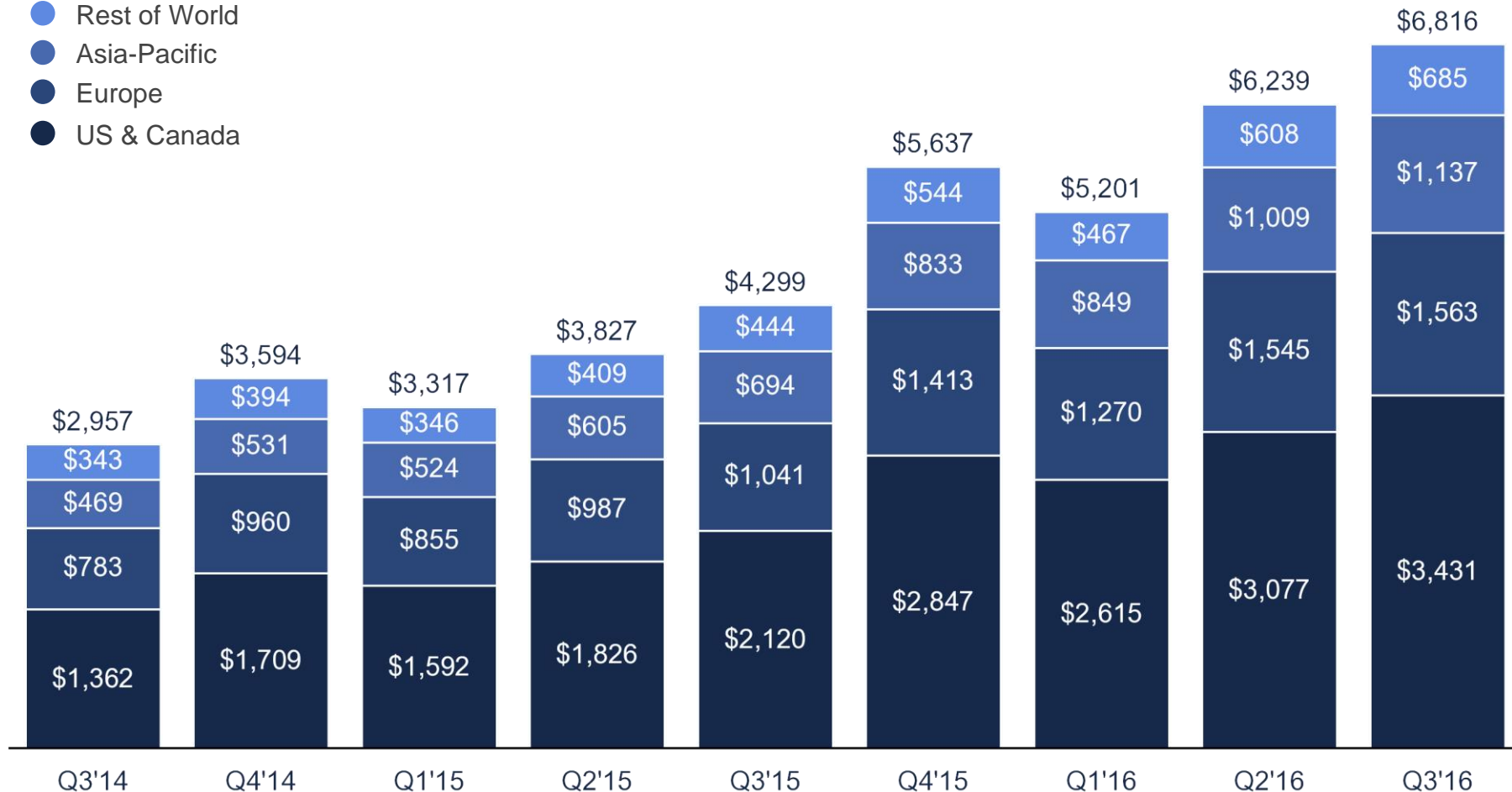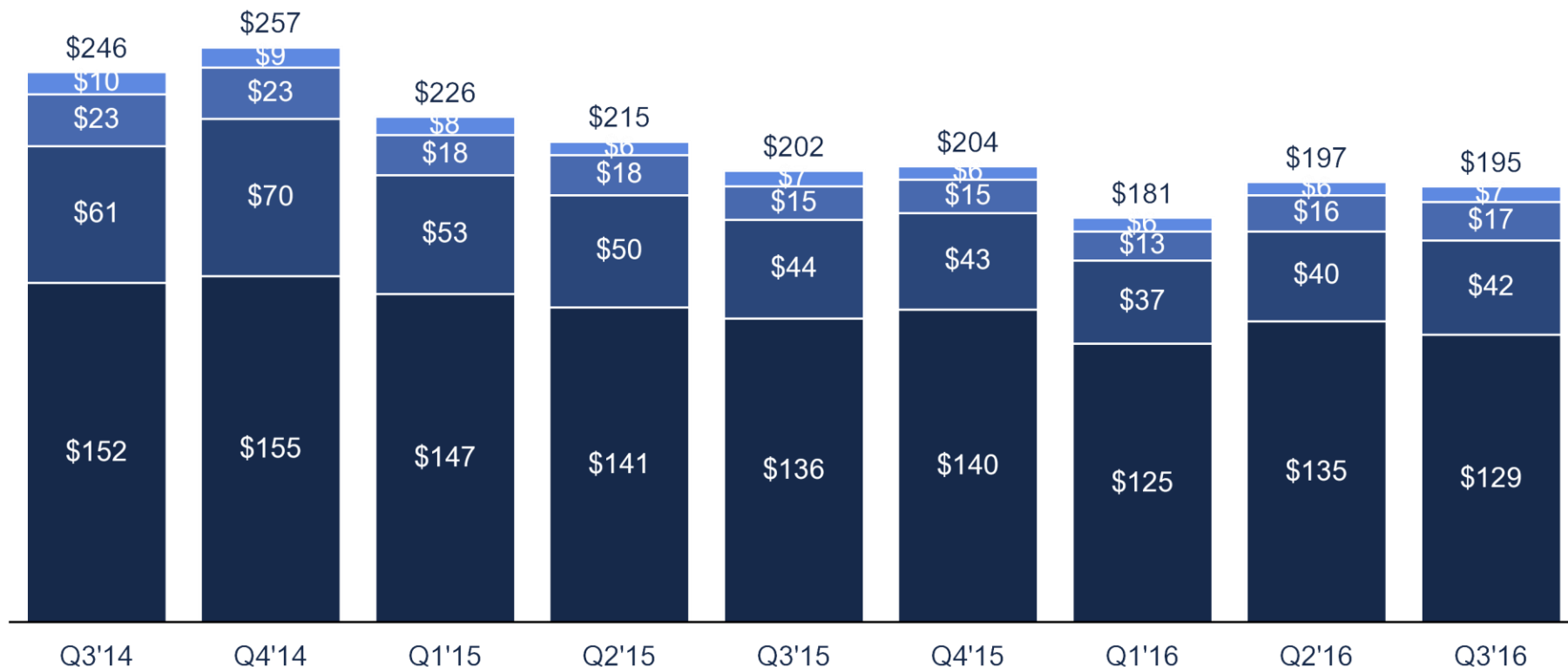| Quarter	Total	Rest of World	Asia-Pacific	Europe	US & Canada
Q3'14	$2,957	$343	$469	$783	$1,362
Q4'14	$3,594	$394	$531	$960	$1,709
Q1'15	$3,317	$346	$524	$855	$1,592
Q2'15	$3,827	$409	$605	$987	$1,826
Q3'15	$4,299	$444	$694	$1,041	$2,120
Q4'15	$5,637	$544	$833	$1,413	$2,847
Q1'16	$5,201	$467	$849	$1,270	$2,615
Q2'16	$6,239	$608	$1,009	$1,545	$3,077
Q3'16	$6,816	$685	$1,137	$1,563	$3,431

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
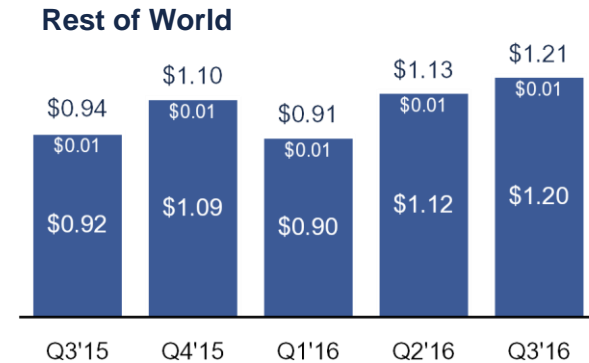- ● Asia-Pacific
- ● Europe
- ● US & Canada

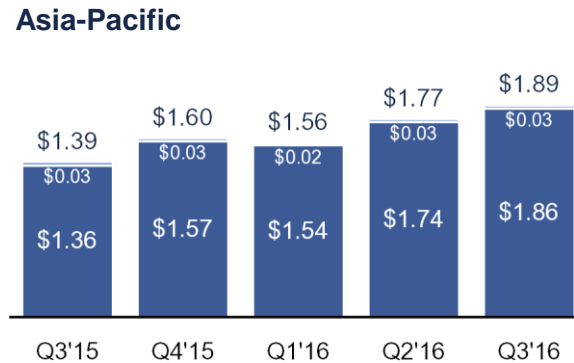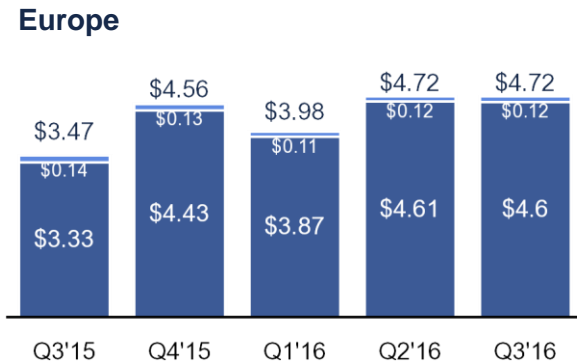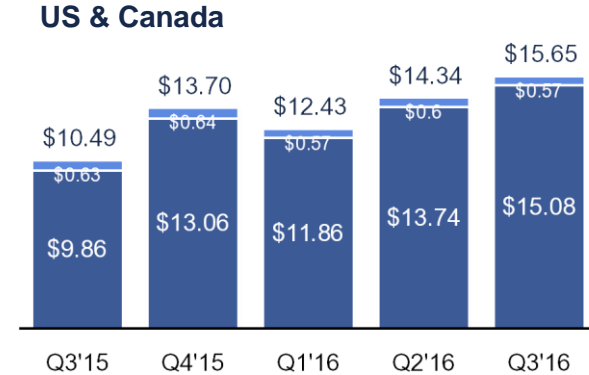|	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$246	$257	$226	$215	$202	$204	$181	$197	$195
Rest of World	$10	$9	$8	$6	$7	$6	$6	$6	$7
Asia-Pacific	$23	$23	$18	$18	$15	$15	$13	$16	$17
Europe	$61	$70	$53	$50	$44	$43	$37	$40	$42
US & Canada	$152	$155	$147	$141	$136	$140	$125	$135	$129

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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Average Revenue per User (ARPU)

● Payments and Other Fees
● Advertising

Worldwide

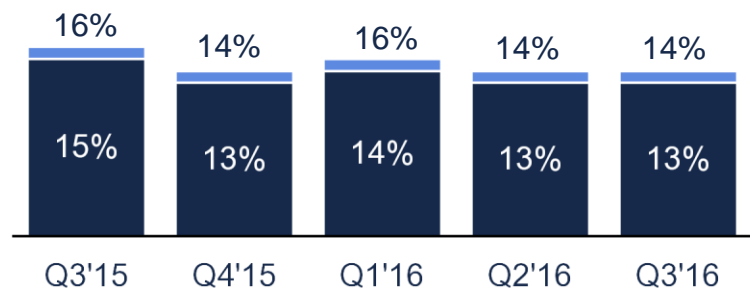|	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$2.97	$3.73	$3.32	$3.82	$4.01
Payments and Other Fees	$0.13	$0.13	$0.11	$0.12	$0.11
Advertising	$2.83	$3.60	$3.21	$3.71	$3.89

US & Canada

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$10.49	$13.70	$12.43	$14.34	$15.65
Payments and Other Fees	$0.63	$0.64	$0.57	$0.6	$0.57
Advertising	$9.86	$13.06	$11.86	$13.74	$15.08

Europe

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$3.47	$4.56	$3.98	$4.72	$4.72
Payments and Other Fees	$0.14	$0.13	$0.11	$0.12	$0.12
Advertising	$3.33	$4.43	$3.87	$4.61	$4.6

Asia-Pacific

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$1.39	$1.60	$1.56	$1.77	$1.89
Payments and Other Fees	$0.03	$0.03	$0.02	$0.03	$0.03
Advertising	$1.36	$1.57	$1.54	$1.74	$1.86

Rest of World

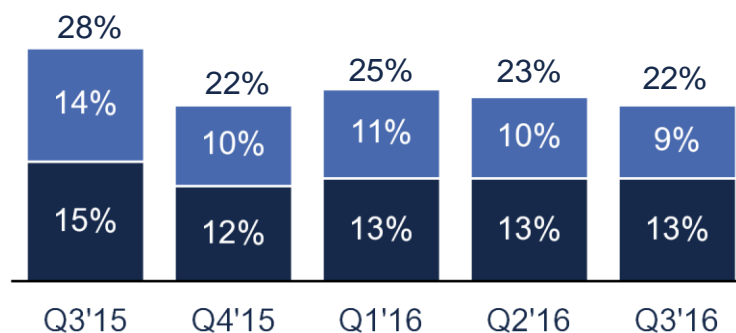|	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	$0.94	$1.10	$0.91	$1.13	$1.21
Payments and Other Fees	$0.01	$0.01	$0.01	$0.01	$0.01
Advertising	$0.92	$1.09	$0.90	$1.12	$1.20

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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

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	16%	14%	16%	14%	14%
All other expenses	15%	13%	14%	13%	13%

Research & Development

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	28%	22%	25%	23%	22%
Share-based	14%	10%	11%	10%	9%
All other expenses	15%	12%	13%	13%	13%

Marketing & Sales

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	16%	13%	15%	14%	13%
Amortization	2%	2%	2%	2%	2%
Share-based	2%	1%	2%	1%	1%
All other expenses	12%	10%	12%	11%	10%
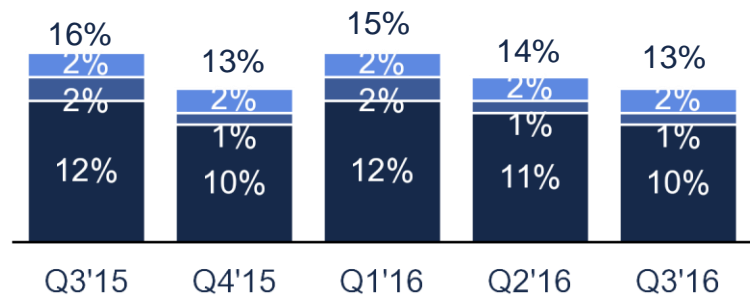
General & Administrative

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Total	8%	6%	7%	6%	6%
Amortization	1%	1%	1%	1%	1%
Share-based	1%				
All other expenses	6%	5%	5%	5%	5%

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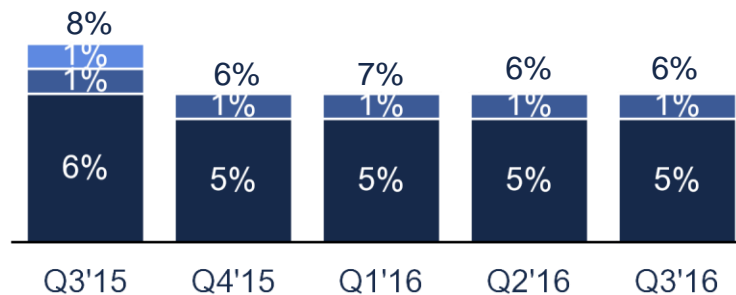
Income from Operations
In Millions

GAAP Income from Operations

Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
$1,397	$1,133	$933	$1,273	$1,459	$2,560	$2,009	$2,746	$3,122

Non-GAAP Income from Operations

Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
$1,820	$2,219	$1,840	$2,228	$2,410	$3,523	$2,977	$3,764	$4,156
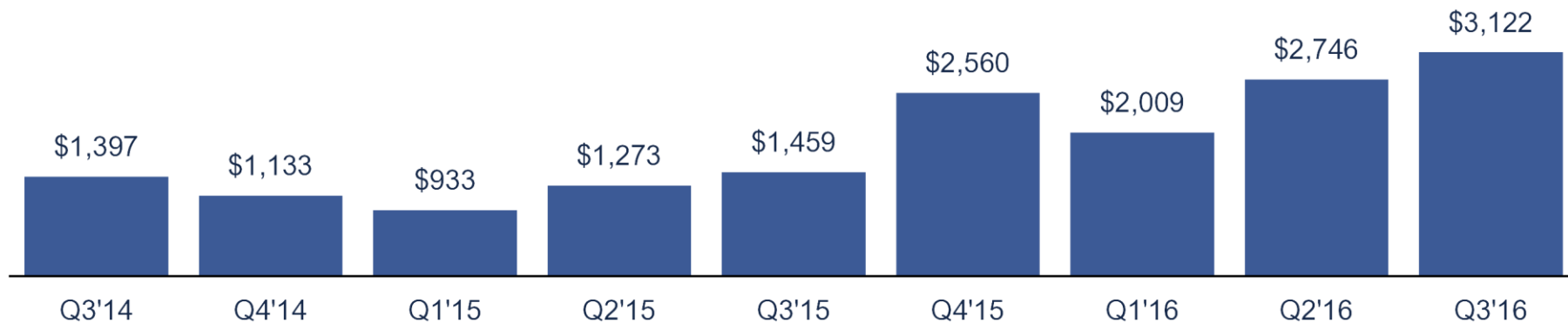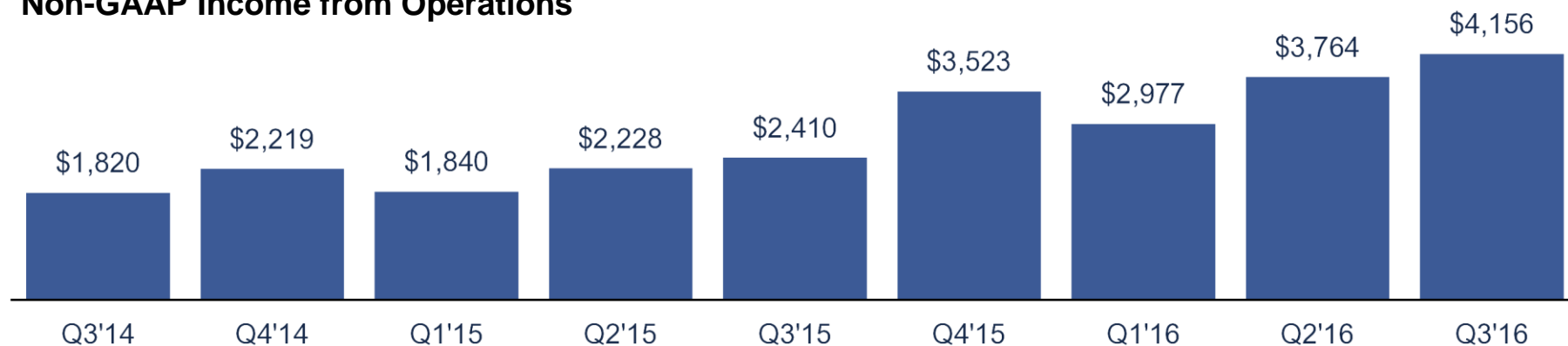
Non-GAAP income from operations excludes share-based compensation expense, payroll tax expenses related to share-based compensation, and amortization of intangibles-see the Appendix for a reconciliation of GAAP to Non-GAAP results.
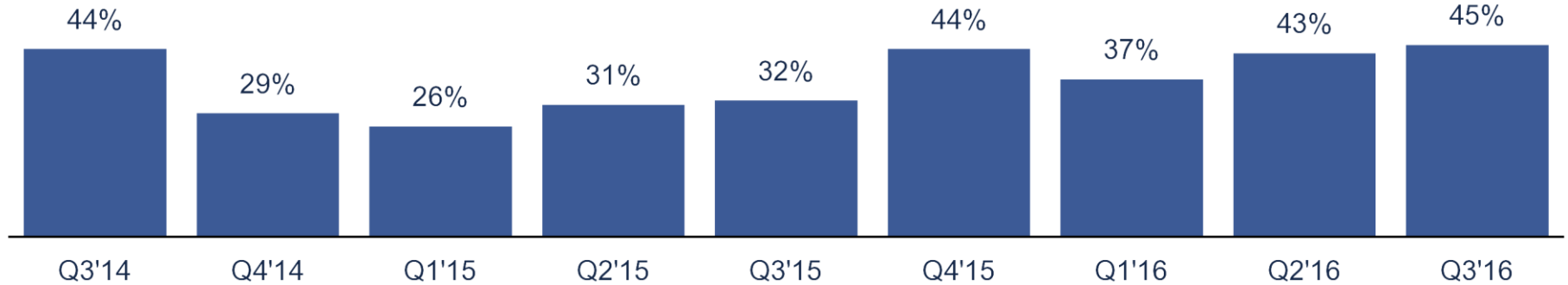
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Operating Margin

GAAP Operating Margin

Quarter	Margin
Q3'14	44%
Q4'14	29%
Q1'15	26%
Q2'15	31%
Q3'15	32%
Q4'15	44%
Q1'16	37%
Q2'16	43%
Q3'16	45%

Non-GAAP Operating Margin

Quarter	Margin
Q3'14	57%
Q4'14	58%
Q1'15	52%
Q2'15	55%
Q3'15	54%
Q4'15	60%
Q1'16	55%
Q2'16	58%
Q3'16	59%

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.
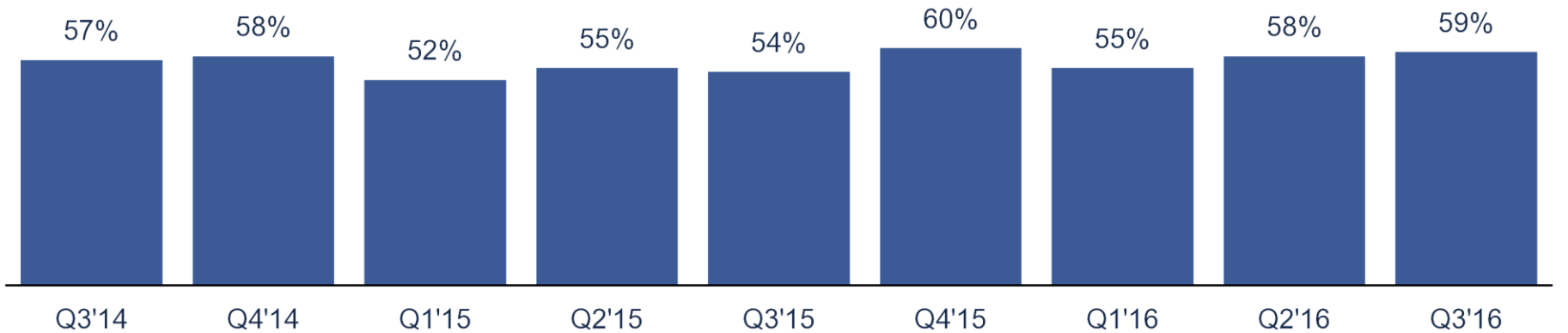
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Effective Tax Rate

GAAP Effective Tax Rate

($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP income before provision for income taxes	$ 1,336	$ 1,114	$ 932	$ 1,273	$ 1,432	$ 2,557	$ 2,065	$ 2,766	$ 3,169
GAAP provision for income taxes	530	413	420	554	536	995	555	711	790
GAAP Effective Tax Rate	**40%**	**37%**	**45%**	**44%**	**37%**	**39%**	**27%**	**26%**	**25%**

Non-GAAP Effective Tax Rate

($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Non-GAAP income before provision for income taxes	$ 1,759	$ 2,200	$ 1,839	$ 2,228	$ 2,383	$ 3,520	$ 3,033	$ 3,784	$ 4,203
Non-GAAP provision for income taxes	610	682	650	791	755	1,255	804	963	1,035
Non-GAAP Effective Tax Rate	**35%**	**31%**	**35%**	**36%**	**32%**	**36%**	**27%**	**25%**	**25%**

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

$806	$701	$512	$719	$896	$1,562	$1,510	$2,055	$2,379
Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16

Non-GAAP Net Income

$1,149	$1,518	$1,189	$1,437	$1,628	$2,265	$2,229	$2,821	$3,168
Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16

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.
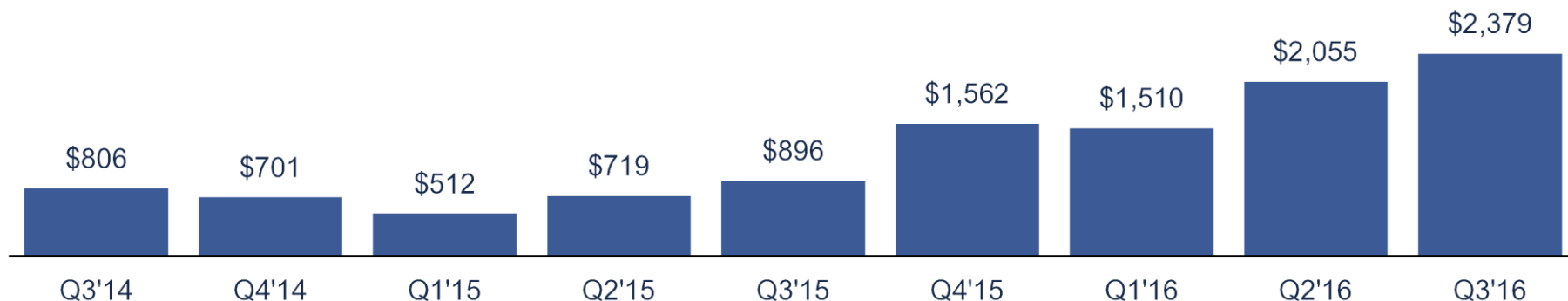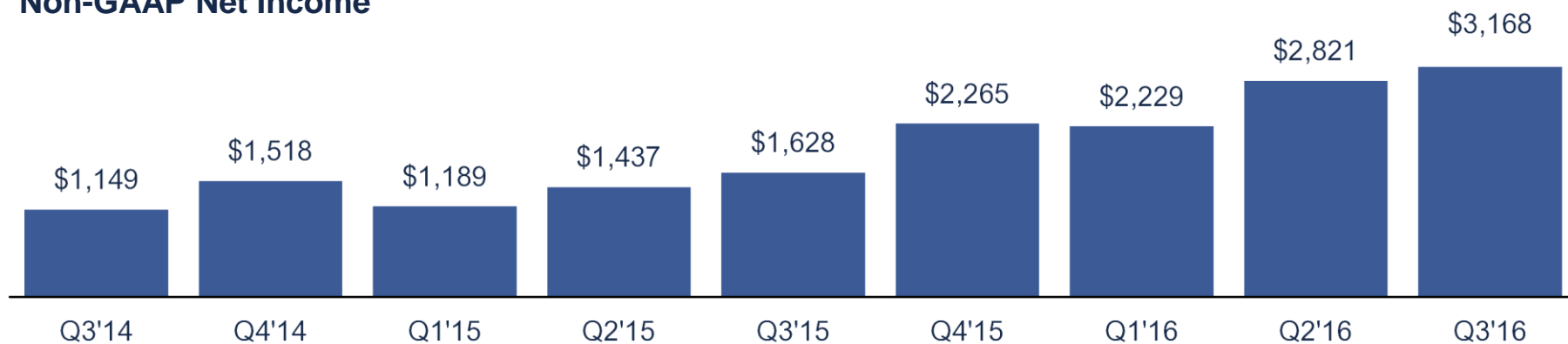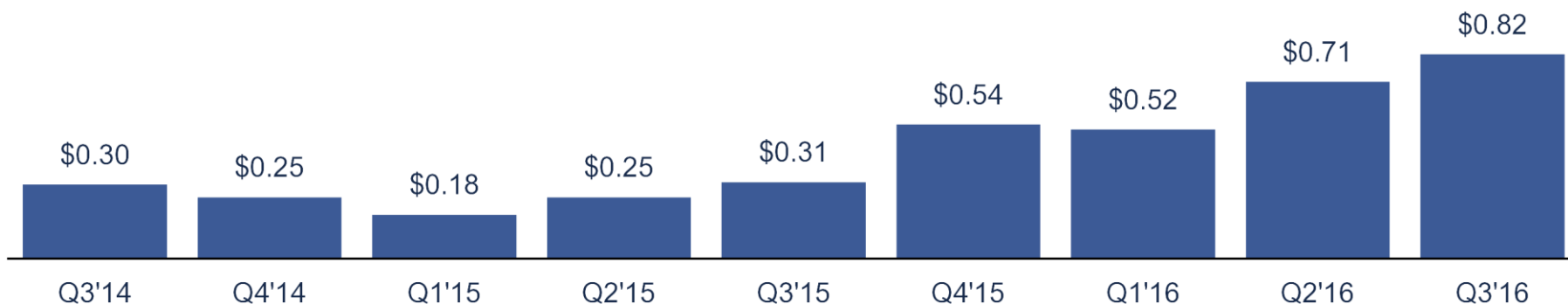
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Diluted Earnings Per Share

GAAP Diluted Earnings Per Share

Quarter	Value
Q3'14	$0.30
Q4'14	$0.25
Q1'15	$0.18
Q2'15	$0.25
Q3'15	$0.31
Q4'15	$0.54
Q1'16	$0.52
Q2'16	$0.71
Q3'16	$0.82

Non-GAAP Diluted Earnings Per Share

Quarter	Value
Q3'14	$0.43
Q4'14	$0.54
Q1'15	$0.42
Q2'15	$0.50
Q3'15	$0.57
Q4'15	$0.79
Q1'16	$0.77
Q2'16	$0.97
Q3'16	$1.09

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.
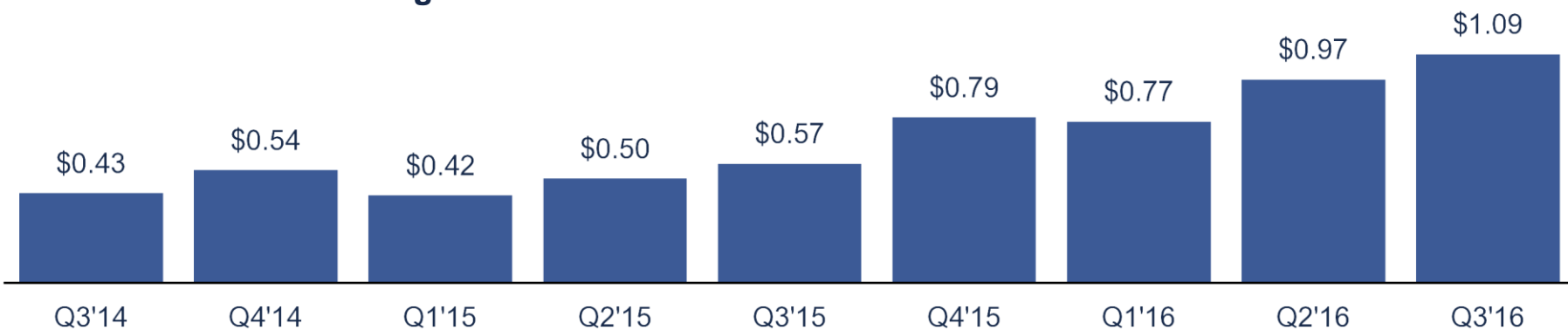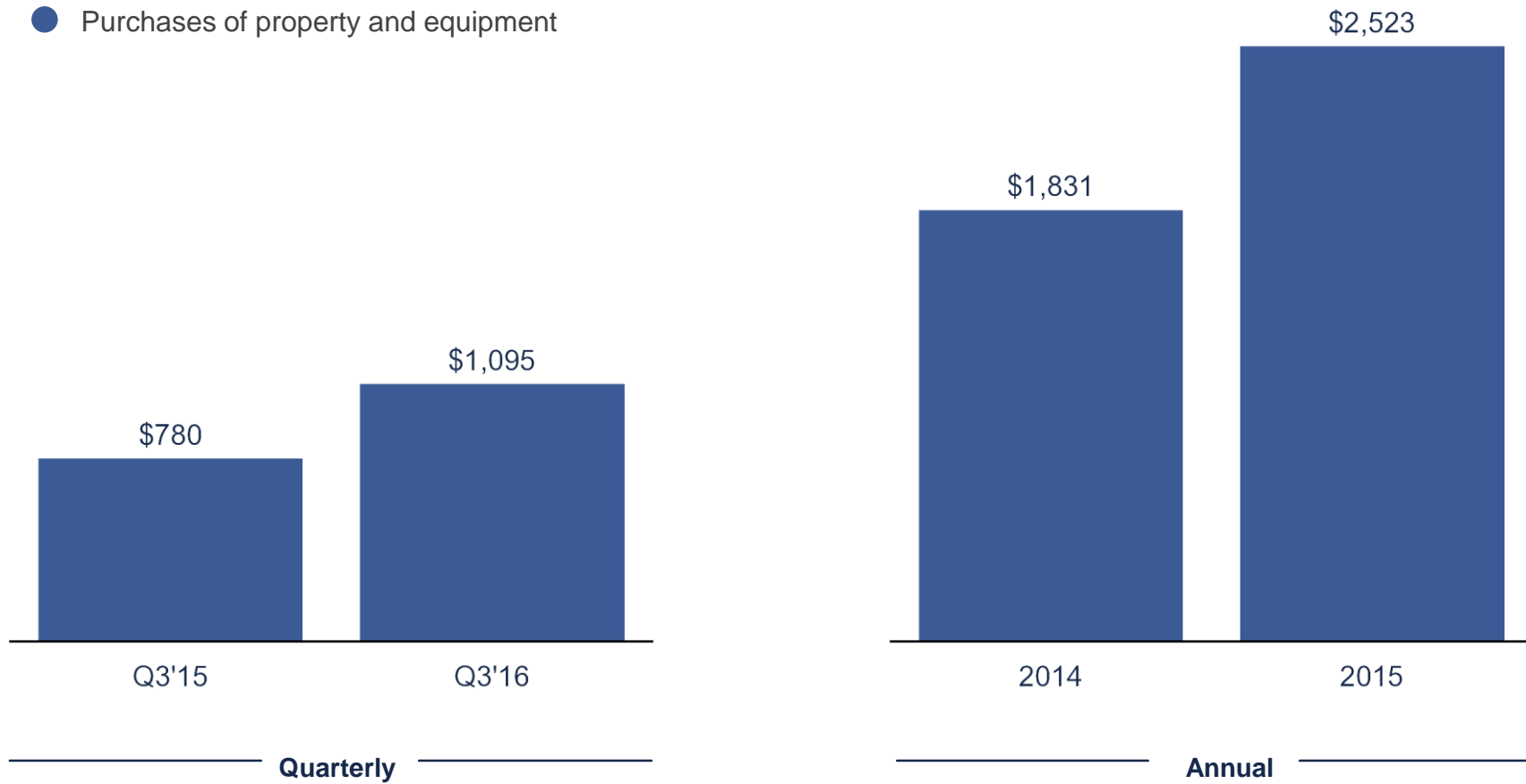
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Capital Investments

In Millions

● Purchases of property and equipment

Quarterly bar chart:
- Q3'15: $780
- Q3'16: $1,095

Annual bar chart:
- 2014: $1,831
- 2015: $2,523

Quarterly   **Annual**

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Appendix

Reconciliations

Income from Operations ($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP income from operations	$ 1,397	$ 1,133	$ 933	$ 1,273	$ 1,459	$ 2,560	$ 2,009	$ 2,746	$ 3,122
Share-based compensation expense	353	896	703	763	757	746	747	805	819
Payroll tax expenses related to share-based compensation	11	13	25	12	14	26	41	20	20
Amortization of intangible assets	59	177	179	180	180	191	180	193	195
Non-GAAP income from operations	$ 1,820	$ 2,219	$ 1,840	$ 2,228	$ 2,410	$ 3,523	$ 2,977	$ 3,764	$ 4,156

Operating Margin	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP operating margin	44%	29%	26%	31%	32%	44%	37%	43%	45%
Share-based compensation expense	11%	23%	20%	19%	17%	13%	14%	13%	12%
Payroll tax expenses related to share-based compensation	—%	—%	1%	—%	—%	—%	1%	—%	—%
Amortization of intangible assets	2%	5%	5%	4%	4%	3%	3%	3%	3%
Non-GAAP operating margin	57%	58%	52%	55%	54%	60%	55%	58%	59%

Net Income ($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP net income	$ 806	$ 701	$ 512	$ 719	$ 896	$ 1,562	$ 1,510	$ 2,055	$ 2,379
Share-based compensation expense	353	896	703	763	757	746	747	805	819
Payroll tax expenses related to share-based compensation	11	13	25	12	14	26	41	20	20
Amortization of intangible assets	59	177	179	180	180	191	180	193	195
Income tax adjustments	(80)	(269)	(230)	(237)	(219)	(260)	(249)	(252)	(245)
Non-GAAP net income	$ 1,149	$ 1,518	$ 1,189	$ 1,437	$ 1,628	$ 2,265	$ 2,229	$ 2,821	$ 3,168

Diluted Earnings Per Share	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP diluted earnings per share	$ 0.30	$ 0.25	$ 0.18	$ 0.25	$ 0.31	$ 0.54	$ 0.52	$ 0.71	$ 0.82
Non-GAAP adjustments to net income	0.13	0.29	0.24	0.25	0.26	0.25	0.25	0.26	0.27
Non-GAAP diluted earnings per share	$ 0.43	$ 0.54	$ 0.42	$ 0.50	$ 0.57	$ 0.79	$ 0.77	$ 0.97	$ 1.09

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Reconciliations (continued)

GAAP Tax ($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP income before provision for income taxes	$ 1,336	$ 1,114	$ 932	$ 1,273	$ 1,432	$ 2,557	$ 2,065	$ 2,766	$ 3,169
GAAP provision for income taxes	530	413	420	554	536	995	555	711	790
GAAP Effective Tax Rate	40%	37%	45%	44%	37%	39%	27%	26%	25%

Non-GAAP Tax ($ in millions)	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
GAAP income before provision for income taxes	$ 1,336	$ 1,114	$ 932	$ 1,273	$ 1,432	$ 2,557	$ 2,065	$ 2,766	$ 3,169
Share-based compensation and related payroll tax expenses	364	909	728	775	771	772	788	825	839
Amortization of intangible assets	59	177	179	180	180	191	180	193	195
Non-GAAP income before provision for income taxes	$ 1,759	$ 2,200	$ 1,839	$ 2,228	$ 2,383	$ 3,520	$ 3,033	$ 3,784	$ 4,203
Non-GAAP provision for income taxes	610	682	650	791	755	1,255	804	963	1,035
Non-GAAP Effective Tax Rate	35%	31%	35%	36%	32%	36%	27%	25%	25%

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Reconciliations (continued)

Free Cash Flow ($ in millions)		Q3'14		Q4'14		Q1'15		Q2'15		Q3'15		Q4'15		Q1'16		Q2'16		Q3'16
Net cash provided by operating activities	$	1,248	$	1,583	$	1,700	$	1,880	$	2,192	$	2,827	$	2,983	$	3,198	$	3,577
Purchases of property and equipment		482		517		502		549		780		692		1,132		995		1,095
Free Cash Flow	$	766	$	1,066	$	1,198	$	1,331	$	1,412	$	2,135	$	1,851	$	2,203	$	2,482

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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 other metrics such as mobile-only DAUs and 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.

For example, there may be individuals who maintain one or more Facebook accounts in violation of our terms of service. We estimate, for example, that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented less than 5% of our worldwide MAUs in 2015. 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 2015, for example, we estimate user-misclassified and undesirable accounts may have represented less than 2% 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. We are continually seeking to improve our ability to identify duplicate or false accounts and estimate the total number of such accounts, and such estimates may change due to improvements or changes in our methodology.

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Limitations of Key Metrics and Other Data (continued)

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.

Some of our metrics have also been affected by applications on certain mobile devices that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. The impact of this automatic activity on our metrics varies by geography because mobile usage varies in different regions of the world. 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 mobile-only 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. For example, some third parties are not able to accurately measure mobile users or do not count mobile users for certain user groups or at all in their analyses.

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.

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Facebook Q3 2016 Results

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