

Reading the Tea Leaves on Facebook's Q1 2020 Earnings

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Facebook had a decent Q1, all things considered. Ad revenues rose 17% year over year, reaching \$17.44 billion, and user growth was especially strong. There are now nearly 3 billion people using Facebook's family of apps on a monthly basis worldwide.

But Q2 and beyond will be much more challenging for Facebook. What executives said about the way Facebook's business deteriorated in March—and what is happening so far in Q2—revealed much about the way things may play out.

Key Data Points for Q1

- **Ad revenues:** \$17.44 billion, up 17% year over year
- **Facebook monthly active users*:** 2.60 billion, up 10% year over year
- **Facebook monthly active people**:** 2.99 billion, up 11% year over year

**not including Instagram, WhatsApp or other properties*

***registered and logged-in users of Facebook, Instagram, Messenger and/or WhatsApp*

Here's a look at three of the biggest takeaways:

March was terrible, and April may be better, but it's still very early.

There was a "steep decrease" in revenues in March, chief financial officer David Wehner said during the Wednesday earnings conference call. Although total ad revenues rose 17% year over year, to \$17.44 billion worldwide, things dropped precipitously starting in the second week of March, especially among travel and automotive advertisers.

But those trends have moderated at the start of Q2, Wehner said, though revenues were flat in the first three weeks of April compared with the previous year. Is that a good sign? Yes, in comparison with March. But it doesn't mean that Facebook is out of the woods.

Data from the [Interactive Advertising Bureau](#) (IAB) indicates that ad buyers' expectations for paid social budget cuts may not be as deep as they were initially, but they are still expecting cuts. As of March, US agency and brand ad buyers who were planning ad budget cuts were expecting to trim social media outlays by an average of 28% between March and June 2020.

Estimated Short-Term* Change in Average Digital Ad Spending due to the Coronavirus Pandemic According to US Agency and Brand Ad Buyers, by Format, March 2020

% change



Note: n=272 respondents who plan on making short-term ad spending changes due to the coronavirus; *March-June 2020
Source: Interactive Advertising Bureau (IAB), "Coronavirus: Ad Revenue Impact on Publishers & Other Sellers," April 15, 2020

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In subsequent IAB research conducted in mid-April, ad buyers were slightly more optimistic about their spending plans. Among those who had paused or adjusted ad budgets, the expected change in paid social for April through June was a decrease of 18%.

That's a spot of good news for Facebook, but there are many more weeks left in the quarter, and the pace of economic recovery around the world will be excruciatingly slow. Ad demand will continue to be low in some industry verticals, bouncing back more quickly in others.

Facebook identified gaming and ecommerce as two bright spots in March and early April. But CEO Mark Zuckerberg also acknowledged the uncertainty of the recovery during the earnings conference call, saying, "I think that we'll see a meaningful economic hit, if I had to predict, for the period of the health emergency. ... I worry that this could be worse than at least some people are predicting."

Usage is up, but it may be temporary.

Core Facebook (not including the other properties in Facebook's portfolio) added over 100 million monthly active users (MAUs) in Q1, more than double the 49 million it added in Q4 2019. There was especially notable growth in the US and Canada, where core Facebook gained 5 million users between Q4 and Q1, the strongest growth it has experienced in those markets in many quarters. Facebook also grew strongly in Europe, adding 12 million users in Q1.

The number of users who visited at least one of Facebook's family of apps (Facebook, Instagram, WhatsApp and/or Facebook Messenger) also grew strongly, reaching 2.99 billion in Q1, up 100 million over Q4 2019. The percentage of people who logged in every day rose to 79% from 78% during that period.

But executives cautioned that some of these usage gains may not last once people return to school and work.

"We expect that we will lose some of this increased engagement when shelter-in-place restrictions are relaxed and life returns to a more normal cadence," Wehner said.

Expect more commerce tools.

Facebook chief operating officer Sheryl Sandberg has become somewhat legendary for her colorful earnings call examples of how businesses have used Facebook advertising successfully. But now that many are cutting those budgets, she instead took time to point out the

many organic options companies have on the platform. That includes posting to their Page, using messaging and conducting commerce.

“People are looking for businesses on Facebook and Instagram more than usual during this crisis, so our free products are particularly important to the many brick-and-mortar businesses pivoting quickly online,” Sandberg said, pointing to a restaurant in Thailand that used posts on Facebook to drive sales during the pandemic. “A Facebook Page or Instagram Business Profile is free and in a matter of minutes establishes a digital storefront,” she added.

That storefront could get even more utility in the near future: Zuckerberg teased a plan to start offering more ecommerce capabilities to businesses.

“We're seeing a lot of businesses that were primarily physical, now moving toward selling stuff online for the first time, and we're seeing a lot of businesses that already had a digital presence now really transition to having their digital presence be their primary presence,” he said. “We'll certainly want to accelerate that aspect of our product road map to make sure that we can serve a lot of those businesses during this period when it can help them with the recovery and getting through this.”