# Facebook Craters 20% To 6-Year-Low After Dismal Earnings, Massive CapEx Guidance, Revenue Warning

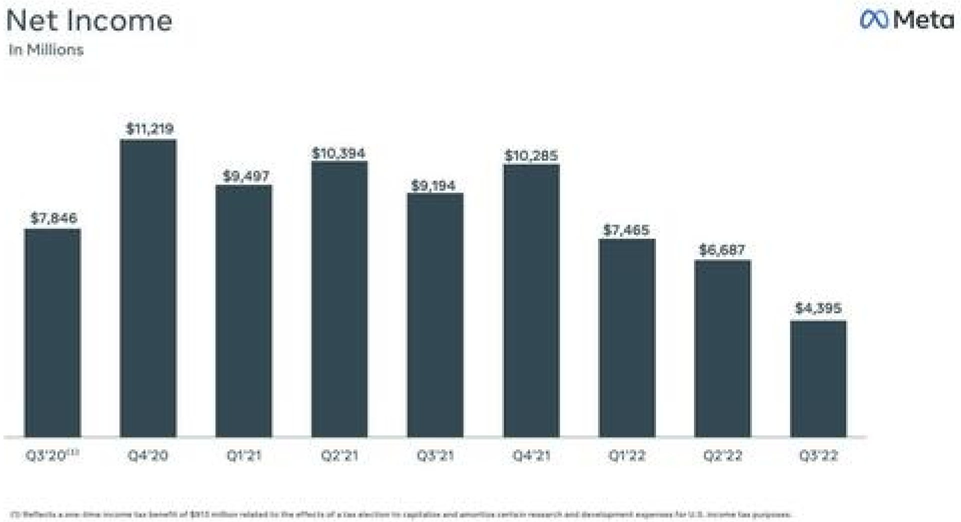
## Description

Heading into today's earning from Facebook, which still has the bizarro ticker META (Ok, Zuck, we got the joke, time to change the name and the ticker), the option-implied move was for a staggering 12% swing in the stock price as nobody had any idea what to expect: yes, the recent results from SNAP and GOOGL were ugly, but sentiment was so beaten down that it was unlikely Facebook could really surprise to the downside (and, boy, was sentiment wrong in retrospect).

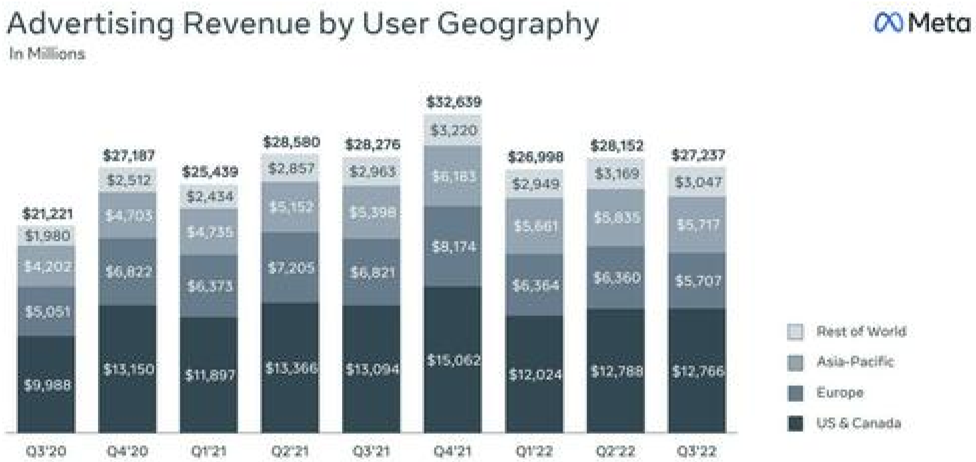
Well, moments ago the company reported earnings, and it appears that the options market was correct, because after first surging almost 10% higher, the stock has since tumbled a whopping 12% all in the span of a few seconds as traders digest what the world's largest social network reported for Q3, which is the following:

- EPS $1.64, ***missing*** the estimate of $1.89, **down 49% from a year ago.**
- Revenue $27.71BN, ***beating*** the consensus estimate of $27.41BN, but **down 4% from a year ago.**
    - Advertising rev. $27.24 billion, ***beating*** estimates of $26.86 billion
    - Family of Apps revenue $27.43 billion, ***beating*** estimates of $27.07 billion
    - Reality Labs revenue $285 million, ***missing*** estimates of $406.3 million
    - Other revenue $192 million, ***in line*** with the est. $193.9 million

Despite the revenue beat, **this was the second straight quarter of revenue declines from the year earlier (after** the first decline ever last quarter). As for Net Income, forgetaboutit…




… As Bloomgerg notes, this is a company that got so used to growing with no end in sight, that they now have to adjust to a period of intense prioritization. Needless to say,  a mixed picture at best, especially since the number of **total ad impressions rose by a higher than expected +17% (est. +11.8%) and yet the average price per ad tumbled -18%, much worse than the estimate -15.3%.** In fact, ad revenue was so ugly, it dropped in every user geography.




Looking at the number of users, we get more mixed results:

- Facebook daily active users 1.98 billion, ***beating*** the est. 1.86 billion
- Facebook monthly active users 2.96 billion, ***missing*** the est. 2.97 billion

Some more headlines from the quarter:

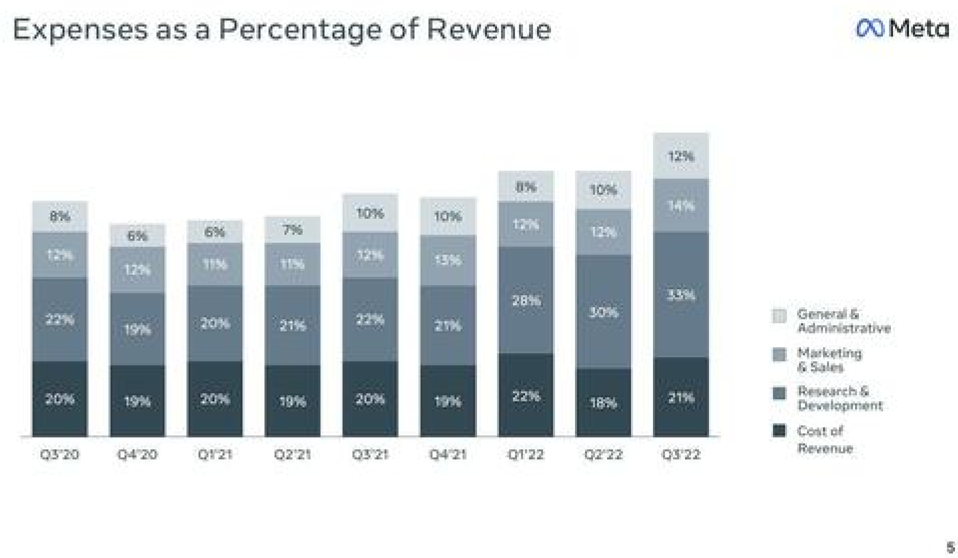
- Meta Sees Reality Labs Op Losses in 2023 Significantly Higher
- Meta Making Changes Across Board to Operate More Efficiently
- Meta Has Increased Scrutiny on All Areas of Operating Expenses
- Meta Holding Some Teams Flat in Headcount, Shrinking Others
- Meta: Beyond 2023 to Pace Reality Labs Investments
- Meta: Boost in AI Capacity Driving Capex Growth in 2023

But it was the company’s guidance that prompted the after hours reversal from high to low, as the company now sees:

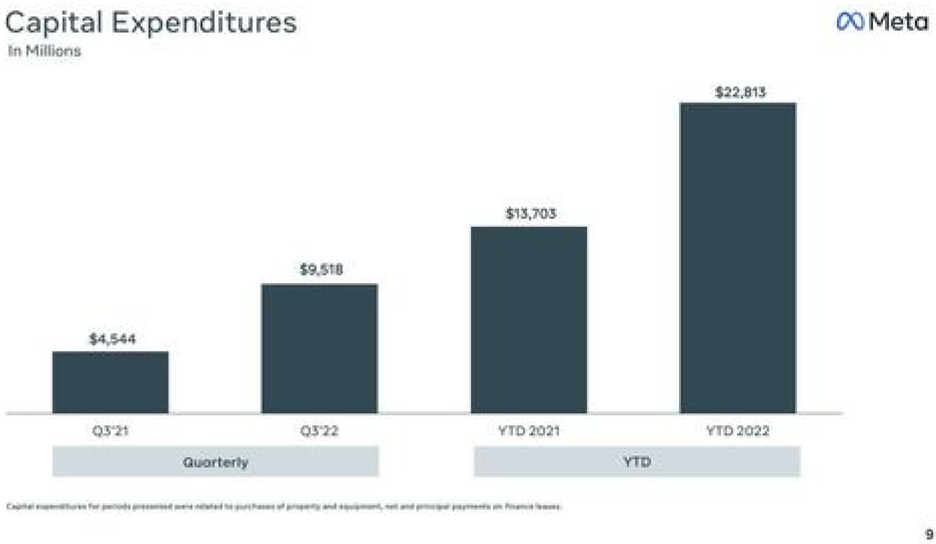
- Revenue of $30 billion to $32.5 billion, **on the weak side of the estimate $32.2 billion**

And while FB trimmed its expense forecast for full year 2022 to $85 billion-$87 billion, from $85 billion-$88 billion (est. 85.11BN), it was the company 2023 full year forecast that was ugly, as a result of far more spending than previously expected:

- Sees total expenses $96 billion to $101 billion, estimate $93.2 billion




- Sees capital expenditure $34 billion to $39 billion, estimate $28.99 billion




Another problem: the metaverse may be the next sliced bread, but it costs a lot of money to convince the world, and even more cash burn, to wit:

> “We do anticipate that Reality Labs operating losses in 2023 will grow significantly year-over-year. Beyond 2023, we expect to pace Reality Labs investments such that we can achieve our goal of growing overall company operating income in the long run.”

Reality Labs’ revenues are tumbling and losses are soaring…


Finally, what assured that META stock would crater is the warning from CEO Mark Zuckerberg, who admitted that "**we face near-term challenges on revenue."**

While he tried to walk it back by promising that "**the fundamentals are there for a return to stronger revenue growth"** and that he is "approaching 2023 with a focus on prioritization and efficiency that will help us navigate the current environment and emerge an even stronger company" all investors saw was "revenue challenges" and hammered the stock accordingly.

It gets worse: the company said that FX would be a ~7% headwind to Y/Y total revenue growth in 4Q.

Amazingly, despite the ugly results, Meta said it sees headcount end 2023 about in-Line With 3Q 2022. Don't worry, after Zuck sees the crash in the stock he will change his mind.

Not even extended outlook commentary from the CFO did anything to stop the bleeding: "To provide some context on the approach we are taking towards setting our 2023 budget, we are making significant changes across the board to operate more efficiently. We are holding some teams flat in terms of headcount, shrinking others and investing headcount growth only in our highest priorities. As a result, we expect headcount at the end of 2023 will be approximately in-line with third quarter 2022 levels."

**CFO Outlook Commentary**

We expect fourth quarter 2022 total revenue to be in the range of $30-32.5 billion. Our guidance assumes foreign currency will be an approximately 7% headwind to year-over-year total revenue growth in the fourth quarter, based on current exchange rates.

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We have increased scrutiny on all areas of operating expenses. However, these moves follow a substantial investment cycle so they will take time to play out in terms of our overall expense trajectory. Some steps, like the ongoing rationalization of our office footprint, will lead to incremental costs in the near term. This should set us up well for future years, when we expect to return to higher rates of revenue growth.

We expect 2022 total expenses to be in the range of $85-87 billion, updated from our prior outlook of $85-88 billion. This includes an estimated $900 million in additional charges related to consolidating our office facilities footprint that we expect to record in the fourth quarter of 2022. We anticipate our full-year 2023 total expenses will be in the range of $96-101 billion. This includes an estimated $2 billion in charges related to consolidating our office facilities footprint.

We expect the slight majority of our 2023 expense dollar growth to be driven by operating expenses, with the remaining growth coming from cost of revenue. We expect the percentage growth rate of 2023 operating expenses to decelerate meaningfully as we curtail non-headcount related expense growth and keep 2023 headcount roughly flat with current levels. Conversely, our growth in cost of revenue is expected to accelerate, driven by infrastructure-related expenses and, to a lesser extent, Reality Labs hardware costs driven by the launch of our next generation of our consumer Quest headset later next year.

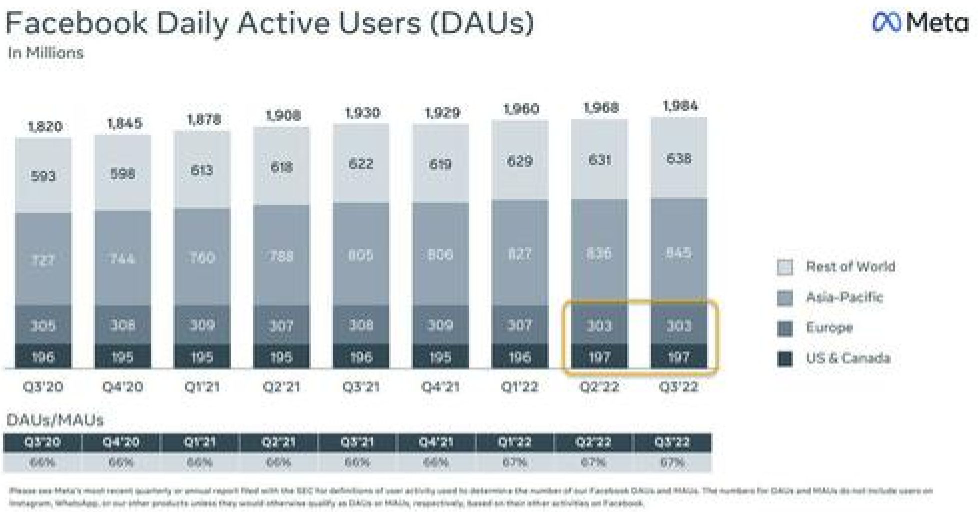
Reality Labs expenses are included in our total expense guidance. We do anticipate that Reality Labs operating losses in 2023 will grow significantly year-over-year. Beyond 2023, we expect to pace Reality Labs investments such that we can achieve our goal of growing overall company operating income in the long run.

We expect 2022 capital expenditures, including principal payments on finance leases, to be in the range of $32-33 billion, updated from our prior range of $30-34 billion. For 2023, we expect capital expenditures to be in the range of $34-39 billion, driven by our investments in data centers, servers, and network infrastructure. An increase in AI capacity is driving substantially all of our capital expenditure growth in 2023.

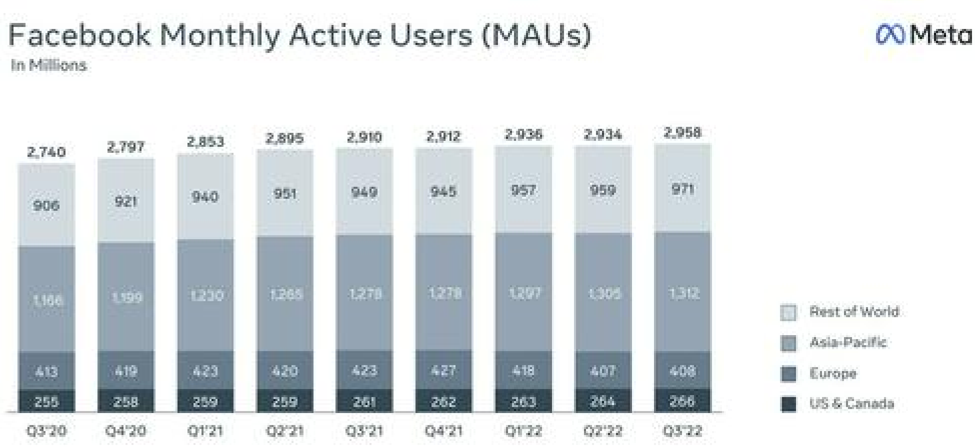
Absent any changes to U.S. tax law, we expect our fourth quarter 2022 and our full-year 2023 tax rate to be similar to the third quarter 2022 rate.

In addition, as previously noted, we continue to monitor developments regarding the viability of transatlantic data transfers and their potential impact on our European operations.

Bottom line: what little good news there is, is that Facebook is still growing on both a DAU…



… and MAU basis.




To some, such as Bloomberg Intel's Singh, this was enough: *"If you look at the numbers, it's a beat. Look at the impressions growth — that's pretty impressive. That goes to show that people are spending time on Facebook properties because that is how you are driving those impressions."*

As Zuckerberg has told his employees, once you have the attention, you can make money off of that. And that's what's going to fund this metaverse transition.

The bad news is that so far the transition is going from bad to worse, with the company plowing ever more dollars into its new strategic vision, and has nothing to show for it.

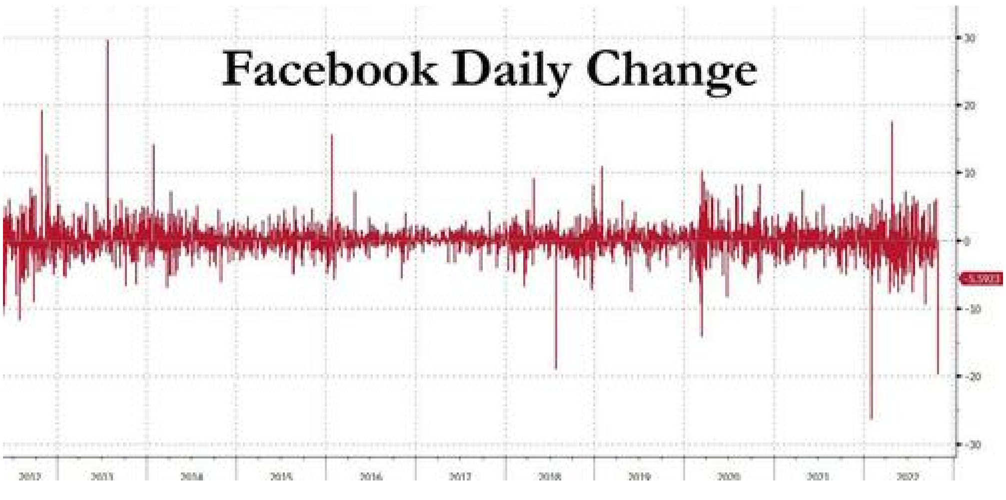
Putting the above together, here are the five main lessons from Bloomberg:

- Meta is in a revenue slump for the long haul. The company sees $30 billion to $32.5 billion for the holiday quarter, missing the midpoint of consensus.
- Expenses for 2023 are higher than expected, at $96 billion to $101 billion, as Zuckerberg pursues that metaverse vision.
- Reality Labs and other metaverse initiatives are going to keep losing money. Operating loss is $3.67 billion.
- Earnings also missed estimates, at $1.64 per share compared to the $1.89 per share estimate.
- Zuckerberg says "prioritization and efficiency" are the focus for 2023. Some teams will be downsized, only priority teams get to grow headcount.

Or rather it has a crashing stock price to show: remember what we said that META options were pricing in a 13% swing after earnings? Well, they got just that- **first to the upside, and then down…**


… with the stock plunging 70% from its recent highs, and tumbling to a fresh 2016 low of $114…


… and still dropping, now down more than 19% on the day, and 14.5% after hours, the second biggest one-day drop in Facebook history.



And while it's clear why anyone who bought the stock in the past year is beating themselves on the head, *nobody is as bad an investor here as Facebook itself*: over the past 12 months, **META has repurchased $42BN of stock at an average price of roughly $300. It is now trading at $112.**

*The company's full earnings presentation is below.*

by Tyler Durden

**Category**

1. Economy-Business-Fin/Invest
2. Main

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