Facebook

This article is more than **3 years old**

Over $119bn wiped off Facebook's market cap after growth shock

Rupert Neate *Wealth correspondent*

@RupertNeate

Thu 26 Jul 2018 19.26 BST

More than $119bn (£90.8bn) has been wiped off Facebook's market value, which includes a $17bn hit to the fortune of its founder, Mark Zuckerberg, after the company told investors that user growth had slowed in the wake of the Cambridge Analytica scandal.

Facebook's shares plunged 19% on Thursday in New York, a day after the Silicon Valley company revealed that 3 million users in Europe had abandoned the social network since the Observer revealed the Cambridge Analytica breach of 87m Facebook profiles and the introduction of strict European Union data protection legislation.

The collapse of Facebook's share price is the biggest ever one-day drop in a company's market value. Shares fell to $176, valuing the company at $510bn, a drop of $119bn from a record high of nearly $630bn on Wednesday.

The previous biggest collapse came in 2000, when Intel lost $91bn in a day. The amount of money wiped off Facebook's market value on Thursday is equivalent to nearly the whole of McDonald's.

The single biggest loser is Zuckerberg, who owns nearly 17% of the company and whose paper fortune fell from $86.5bn to about $70bn, sending him tumbling from the third-richest person on the planet to the sixth.

The collapse came after the company told investors to expect a significant decline in growth rate, and revealed that the number of users in Europe had fallen from 282 million to 279 million.

David Wehner, Facebook's chief financial officer, said on Wednesday that the company's decision to give its users "more choices around data privacy" following the Cambridge Analytica scandal "may have an impact on our revenue growth".

"Our total revenue growth rates will continue to decelerate in the second half of 2018, and we expect our revenue growth rates to decline by high single-digit percentages from prior quarters sequentially in both Q3 and Q4," he said. "Looking beyond 2018, we anticipate that total expense growth will exceed revenue growth in 2019."

He told investors to expect a big jump in costs related to its efforts to improve data handling and an advertising drive to reassure users.

Costs in the latest quarter rose by 50% to $7.4bn as the company spent vast sums on improving data security and increased policing of the site after Zuckerberg admitted to Congress that Facebook had been too slow to react to Russian meddling in the run-up to the 2016 presidential election.

"We were too slow to spot and respond to Russian interference, and we're working hard to get better," Zuckerberg said in testimony to the House energy and commerce committee in April. "Our sophistication in handling these threats is growing and improving quickly."

Zuckerberg was hauled before Congress to answer questions about the data breach scandal, in which information from 87m user profiles, the majority based in the US, was harvested for use by Cambridge Analytica in targeted political advertising. Facebook has also been under investigation by the FBI, the Department of Justice and the Securities and Exchange Commission.

Zuckerberg said his company aimed to hire 20,000 people by the end of the year to boost its security and help review suspect content on the site. It has been hiring extra bodies at a vast rate, with its headcount increasing by 47% since last year to more than 30,000 people.

"Looking ahead, we will continue to invest heavily in security and privacy because we have a responsibility to keep people safe," he said.

Zuckerberg refused to appear before MPs in the UK despite the threat of a formal summons in the wake of the Cambridge Analytica data breach. The information commissioner, Elizabeth Denham, fined Facebook a maximum £500,000 earlier this month for data law breaches.

"Facebook has failed to provide the kind of protections they are required to under the Data Protection Act," she said. "Fines and prosecutions punish the bad actors, but my real goal is to effect change and restore trust and confidence in our democratic system."

Facebook's revenues are such that it would take only five and a half minutes for it to earn enough to pay the fine.

Colin Sebastian, an analyst at US investment bank Baird, said Facebook's shares had fallen after the company "dropped two bombshells" on a conference call with analysts following the release of its results on Wednesday.

"A significant slowdown in revenue growth for the third and fourth quarters, followed by operating margin declines over the next three-plus years," Sebastian said. "Importantly, these are 'self-inflicted' issues to a large degree, as Facebook sacrifices core app monetisation to drive usage/engagement of Stories."

Brent Thill, an analyst at banking group Jefferies, told Zuckerberg that "many investors are having a hard time reconciling that deceleration" in revenues. "It just seems like the magnitude is beyond anything we've seen, especially across a number of the tech [companies] we cover," he said on the conference call with Facebook's top executives.

At the start of the call, before the shares started to tank in after-market trading, Zuckerberg had described the results as "a solid quarter" and talked about the company's "amazing success".

Some investors have called for Zuckerberg to be removed as the social network's chairman due to his "mishandling" of the Cambridge Analytica crisis.

Trillium Asset Management, a small activist investor that has previously questioned Zuckerberg's role as both chairman and chief executive, said allowing Zuckerberg to have so much power had "contributed to Facebook missing, or mishandling, a number of severe controversies, increasing risk exposure and costs to shareholders".

"A CEO who also serves as chair can exert excessive influence on the board and its agenda, weakening the board's oversight of management," Trillium said. "Having an independent chair helps the board carry out its primary duty - to monitor the management of the company on behalf of its shareholders."

However, the proposal was unlikely to succeed as Zuckerberg holds Class B shares that give him the majority of the voting power in the company's governance. Last year, 51% of independent investors voted to oust Zuckerberg as chairman.