- The COVID-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, which may cause further business slowdowns or shutdowns, depress demand for our advertising business, and adversely impact our results of operations. During the three months ended March 31, 2020, we faced increasing uncertainties around our estimates of revenue collectibility and accounts receivable credit losses. We expect uncertainties around our key accounting estimates to continue to evolve depending on the duration and degree of impact associated with the COVID-19 pandemic. Our estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in our consolidated financial statements.
- Revenue by geography (P. 16)
- In July 2019, we entered into a settlement and modified consent order to resolve the FTC inquiry, which was approved by the federal court and took effect in April 2020. Among other matters, our settlement with the FTC requires us to pay a penalty of $5.0 billion and to significantly enhance our practices and processes for privacy compliance and oversight. This penalty is reflected in accrued expenses and other current liabilities on our condensed consolidated balance sheet as of March 31, 2020. We paid the penalty in April 2020 upon the effectiveness of the modified consent order.
- On April 1, 2015, a putative class action was filed against us in the U.S. District Court for the Northern District of California by Facebook users alleging that the "tag suggestions" facial recognition feature violates the Illinois Biometric Information Privacy Act, and seeking statutory damages and injunctive relief. On April 16, 2018, the district court certified a class of Illinois residents, and on May 14, 2018, the district court denied both parties' motions for summary judgment. On May 29, 2018, the U.S. Court of Appeals for the Ninth Circuit granted our petition for review of the class certification order and stayed the proceeding. On August 8, 2019, the Ninth Circuit affirmed the class certification order. On December 2, 2019, we filed a petition with the U.S. Supreme Court seeking review of the decision of the Ninth Circuit, which was denied. On January 15, 2020, the parties agreed to a settlement in principle to resolve the lawsuit, which will require a payment of $550 million by us and is subject to approval by the district court. This settlement amount is reflected in accrued expenses and other current liabilities on our condensed consolidated balance sheet as of March 31, 2020.
- During the three months ended March 31, 2020, we repurchased and subsequently retired 6 million shares of our Class A common stock for an aggregate amount of $1.24 billion. As of March 31, 2020, $13.66 billion remained available and authorized for repurchases.
- On April 21, 2020, we entered into a definitive agreement to invest in Jio Platforms Limited, a subsidiary of Reliance Industries Limited, for approximately $5.7 billion at the current exchange rate. RESEARCH WHAT THIS IS
- Our business has been impacted by the COVID-19 pandemic, which has resulted in authorities implementing numerous preventative measures to contain or mitigate the outbreak of the virus, such as travel bans and restrictions, limitations on business activity, quarantines, and shelter-in-place orders. These measures have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide, which have significantly impacted our business and results of operations. We have seen a significant increase in the size of our user base and user engagement as a result of these preventative measures. At the same time, we experienced a significant reduction in the demand for advertising, as well as a related decline in the pricing of our ads, over the last three weeks of the first quarter of 2020. After the initial steep decrease in our advertising revenue growth rates in March compared to earlier in the first quarter of 2020, we have seen signs of stability reflected in the first three weeks of April, where advertising revenue has been approximately flat compared to the same period a year ago, down from the 17% year-over-year growth in the first quarter of 2020. We expect that we will lose at least some of the increased user engagement when various shelter-in-place restrictions are relaxed in the future. In addition, the demand for and pricing of our advertising services, as well as our overall results of operations, may be materially and adversely impacted by the pandemic for the duration of 2020 or longer, and we are unable to predict the duration or degree of such impact with any certainty. We also intend to continue to invest in our business based on our company priorities, and we anticipate that additional investments in our data center capacity, network infrastructure, and office facilities, as well as scaling our headcount to support our growth and certain initiatives related to the COVID-19 pandemic, will continue to drive expense growth in 2020.
- During the first quarter of 2020, worldwide ARPP was $6.03, an increase of 7% from the first quarter of 2019.

RESULTS OF OPERATIONS

FACTOR	VARIATION YOY	DRIVER

Revenue	+ 18%	• Advertising +17% | Payments +80%
		• The increase was almost entirely due to an increase in advertising revenue as a result of an increase in the number of ads delivered, partially offset by a decrease in the average price per ad.
		• # of ads increase 39%
		    • The increase in the ads delivered was driven by an increase in the number and frequency of ads displayed across our products, and an increase in users and their engagement.
		• Avg price of ad -16%
		    • The decrease in average price per ad was primarily driven by a decrease in advertising demand globally due to the COVID-19 pandemic over the last three weeks of the quarter.

		- To a lesser extent, the decrease in average price per ad was also caused by an increasing proportion of the number of ads delivered as Stories ads and in geographies that monetize at lower rates. - In the near-term, we anticipate that future advertising revenue growth will be determined primarily by the extent to which the COVID-19 pandemic and related economic slowdown result in a decrease in advertising demand. - Strengthening of US dollar had unfavorable impact on revenue.
Cost of Revenue	+23%	The increase was primarily due to an increase in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher cost of consumer hardware devices sold and traffic acquisition costs.
R&D	+40%	Payroll | +35% headcount
Marketing & Sales	+38%	The increase was primarily driven by increases in marketing expenses and payroll and benefits expenses. Our payroll and benefits expenses increased as a result of a 20% increase in employee headcount from March 31, 2019 to March 31, 2020 in our marketing and sales functions.
General & Admin	-61%	- The decrease was mostly due to the $3.0 billion legal accrual recorded in the first quarter of 2019 related to our FTC settlement, partially offset by an increase of $193 million in bad debt expense, a majority of which was due to an increase in our estimated credit losses as the result of economic slowdown caused by the COVID- 19 pandemic. - In addition, our payroll and benefits expenses increased as a result of a 29% increase in employee headcount from March 31, 2019 to March 31, 2020 in our general and administrative functions.
Taxes	-9%	- which was mostly due to a decrease in income from operations prior to the effect of the 2019 legal accrual related to the FTC settlement that is not expected to be tax-deductible. - Our effective tax rate in the first quarter of 2020 decreased compared to the same period in 2019, mostly due to the 2019 legal accrual related to the FTC settlement that is not expected to be tax-deductible. - Effective tax rate decreased to 16% from 30% the prior year.

LIQUIDITY & CAPITAL RESOURCES

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  - net operating loss carryforward was $9.35 billion
  - $324 million of federal tax credit carryforward
  - As of March 31, 2020, $14.69 billion of the $60.29 billion in cash and cash equivalents and marketable securities was held by our foreign subsidiaries.
  - In July 2019, we entered into a settlement and modified consent order to resolve the inquiry of the FTC into our platform and user data practices, which was approved by the federal court and took effect in April 2020. The settlement requires us to pay a penalty of $5.0 billion, which is included in accrued expenses and other current liabilities on our condensed consolidated balance sheet as of March 31, 2020. We paid the penalty in April 2020 upon the effectiveness of the modified consent order.
- In 2020, we anticipate making capital expenditures of approximately $14 billion to $16 billion and a payment of approximately $5.7 billion, at the current exchange rate, for our investment in Jio Platforms Limited. See Note 14 — Subsequent Event in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding our investment in Jio Platforms Limited.

RISK FACTORS:

- The COVID-19 pandemic has had, and is expected to continue to have, a significant adverse impact on our advertising revenue and also exposes our business to other risks.
  - In the first quarter of 2020, our advertising revenue grew 17% year-over-year, which was the slowest growth rate for our first fiscal quarter since our initial public offering and, in particular, we experienced a significant reduction in the demand for advertising, as well as a related decline in the pricing of our ads, over the last three weeks of the quarter.
  - our inability to sustain the significant increase in the size of our user base and user engagement, particularly for our messaging products, whether as a result of the lapse of shelter-in-place measures or otherwise
  - decreased user engagement as a result of users' inability to purchase data packs or devices to access our products and services;
  - delays in product development or releases, or reductions in manufacturing production and sales of consumer hardware, as a result of inventory shortages, supply chain shortages, or diversion of our efforts and resources to projects related to COVID-19;

    - significant disruption of global financial markets, which could cause fluctuations in currency exchange rates or negatively impact our ability to access capital in the future
- More recently, we have experienced a significant increase in the size and engagement of our active user base across a number of regions as a result of the COVID-19 pandemic, and we expect that we will lose at least some of this increased engagement when various shelter-in-place restrictions are relaxed in the future.
- The effects of the pandemic have resulted in reduced demand for our ads, a related decline in pricing of our ads, and additional demands on our technical infrastructure as a result of increased usage of our services, which may impair our ability to maintain or increase the quantity or quality of ads shown to users and adversely affect our revenue and financial results.
- In addition, the changes in our work environment as a result of the COVID-19 pandemic could impact the security of our systems, as well as our ability to protect against attacks and detect and respond to them quickly. The rapid adoption of some third-party services designed to enable the transition to a remote workforce also may introduce security risk that is not fully mitigated prior to the use of these services. We may also be subject to increased cyber-attacks, such as phishing attacks by threat actors using the attention placed on the pandemic as a method for targeting our personnel.
- The infrastructure expansion we are undertaking is complex and involves projects in multiple locations, and we have had to suspend certain of these projects as a result of the COVID-19 pandemic. Additional unanticipated delays or disruptions in the completion of these projects, including due to any shortage of labor necessary in building portions of such projects, or availability of components, challenges in obtaining required government or regulatory approvals, or other geopolitical challenges or actions by governments, whether as a result of the pandemic or otherwise, may lead to increased project costs, operational inefficiencies, or interruptions in the delivery or degradation of the quality or reliability of our products.
- Our participation in the Libra Association will subject us to significant regulatory scrutiny and other risks that could adversely affect our business, reputation, or financial results.