



A study on the financial performance of Facebook after acquisition of WhatsApp

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Abstract

A Study on the financial performance of Facebook on acquisition of Whatsapp has been chosen for the study. The study was carried out for a period of five years (2013-2017) to analyse the performance of Facebook on acquisition of Whatsapp. Secondary data was collected from various websites for the research. Trend Analysis is an important and useful technique for financial statement analysis which is used as a tool for analysing the financial performance of Facebook. Trend Analysis for Goodwill, Net Revenue, Cost and Expenses, Account Receivables, Account Payables and Prepaid Expenses are analysed for five years (2013-2017). Findings from the analysis are discussed Goodwill, Net Revenue, Accounts receivable, Accounts payable of Facebook shows an increasing trend post acquisition. Cost and revenue has also shown a rise after the acquisition of Whatsapp. Prepaid expenses has shown an irregular trend. Thus Whatsapp plays a significant role in the global areas crucial to Facebook's growth by reaching a billion users and with the market of that size Facebook is sure to find a way to eventually cash in.

Keywords: trend analysis, acquisition, Facebook, WhatsApp, financial statement

Introduction

An acquisition is a situation whereby one company purchases most or all of another company's shares in order to take control. Acquisitions often become a part of a company's growth strategy when it is more beneficial to acquire an existing firm's operations than it is to expand its own. Sometimes expanding compromises efficiency because the company is becoming too bureaucratic or it runs into physical or logistical resource constraints, eventually its marginal productivity peaks. To find higher growth and new profits, the large firm may look for promising young companies to acquire and incorporate into its revenue stream. A business combination can be effected as either an asset acquisition or a stock acquisition. Asset acquisition: The acquirer buys some or all of the target's assets/liabilities directly from the seller. If all assets are acquired, the target is liquidated. Stock acquisition: The acquirer buys the target's stock of from the selling shareholder in a stock sale, the sellers are the target's shareholders (which may be a corporate entity).

Trend Analysis

Trend analysis takes into account historical data points for a stock and, controlling for other factors like the general changes in the sector, market conditions, competition for similar stocks it allows traders to forecast short, intermediate, and long term possibilities for the stock. By watching the general trends of the markets, a trader may be able to match purchases and sales of particular stocks, maximizing his or her potential for profits. At the same time, it is important to look at historical data in a larger context of conditions for the underlying company to understand if there are factors that may affect a stock's value irrespective of general market conditions or past performance. For example, a trader should look inside the financial conditions of the company, understand the market and technologies, and anticipate competitive pressures on the company within its sector. All of these tolls, as well as trend analysis, benefit a trader.

Profile of the company

WhatsApp Messenger is a freeware and cross-platform messaging and Voice over IP (VoIP) service. The application allows the sending of text messages and voice calls, as well as video calls, images and other media, documents, and user location. WhatsApp was founded in 2009 by Brian Acton and Jan Koum, both former employees of Yahoo!. The application runs from a mobile device but is also accessible from desktop computers; the service requires consumer users to provide a standard cellular mobile number. WhatsApp had a user base of over one and a half billion, making it the most popular messaging application at the time. WhatsApp has grown in multiple countries, including Brazil, India, and large parts of Europe, including United Kingdom and France.

Facebook is an American online social media and social networking service company based in Menlo Park, California. Its website was launched on February 4, 2004, by Mark Zuckerberg, activity. Facebook has more than 2.2 billion monthly active users as of January 2018. Its popularity has led to prominent media coverage for the company, including significant scrutiny over privacy and the psychological effects it has on users. Facebook offers other products and services. It acquired Instagram, WhatsApp and Oculus Rift and independently developed Facebook Messenger.

Details of Acquisition

Date of acquisition: 18th February 2014

- Acquisition amount: \$ 19 billion
- It includes
 1. \$ 4 billion in cash
 2. \$ 12 billion worth of Facebook shares
 3. \$ 3 billion in restricted stock units
- Jan Koum to join Board of Directors of Facebook

Research Methodology

A research design is purely and simply the basic frame work or plan for study that guides the collection and analysis of the data. In financial Analysis, the researcher adopted the Comparative research design in the collection and analysis of the data. Methodology is a way to systematically solve the research problem. It explains various steps that are generally adopted by a researcher in studying the research problem.

Objective of study

To compare the performance of Facebook Inc. after the acquisition of Whatsapp Inc. using Trend Analysis.

Source of data

The study is based on secondary data. It has been collected from various websites and journals and books.

Period of the study

A period of five years from 2013 to 2017 has been taken for the study. The reason for us to have taken five years for our study is that we have to compare the financial performance of the company chosen before and after the year of acquisition i.e.,2014

Tools used for the study

- Trend analysis

Limitations

The Data available for the study are subject to a few limitations which are as follows:

- The study is only for the periods from 2013-2017; the changes that took place before and after this period were not taken into consideration.
- The reliability and correctness of the study depends on the information provided in the annual report of the company. This project is based on secondary data therefore it may not be reliable.

Review of Literature

David J. Ravenscraft, F.M Scherer (1989) ^[1] This paper analyzes the pre-merger profitability of acquisition targets and post-merger operating results for the years 1957–1977. Acquired companies are found to be extraordinarily profitable pre-merger, the more so, the smaller their size. Following merger, the profitability of acquired entities declined except among pooling-of-interests merger partners of roughly equal pre-merger size.

Stefano Rossi, Paolo F. Volpin (2004) ^[2] This article studies the determinants of mergers and acquisitions around the world by focusing on differences in laws and regulation across countries. They found that the volume of M&A activity is significantly larger in countries with better accounting standards and stronger shareholder protection. The probability of an all-cash bid decreases with the level of shareholder protection in the acquirer country. In cross-border deals, targets are typically from countries with poorer investor protection than their acquirers’ countries, suggesting that cross-border transactions play a governance role by improving the degree of investor protection within target firms. This article is titled “Cross-country determinants of mergers and acquisitions”.

Deepak Nayyar(2008) ^[3] This paper analyses the rapid expansion in outflows of foreign direct investment from India and the spurt in foreign acquisitions by Indian firms, situated

in the wider context of international investment from developing countries. Much of the investment was in manufacturing activities and most of the acquisitions were in industrialized countries. The economic stimulus and the strategic motive for the internationalization of firms from India were provided by a range of underlying factors driving the process, which differed across sectors and firm.

David B. Jemison, Sim B Sitkin (1986) ^[4]. This paper suggests that the choice perspective be supplemented with a process perspective which recognizes the acquisition process itself as a potentially important determinant of activities and outcomes. A series of research propositions is offered suggesting how four impediments present in the process itself might affect acquisition outcomes. This article is titled “Corporate Acquisitions: A Process Perspective”.

Analysis and Interpretation

Trend analysis of Facebook Inc. Before and after the acquisition of WhatsApp

Table 1: Trend Analysis of goodwill of Facebook Inc.

Year	Goodwill amount (value in USD billions)	Trend
2013	0.839	100
2014	17.981	2143.15
2015	18.026	2148.51
2016	18.122	2159.95
2017	18.221	2171.75

Source: investor.fb.com

Its clearly seen that the value of goodwill has been drastically increased since 2014, which was the year of acquisition of Whatsapp Inc. before the year of acquisition i.e., 2013, the value of goodwill of Facebook Inc. was \$0.839 billion whereas in the year of 2014 i.e., after acquisition of Whatsapp it has increased by \$17.142 billions.

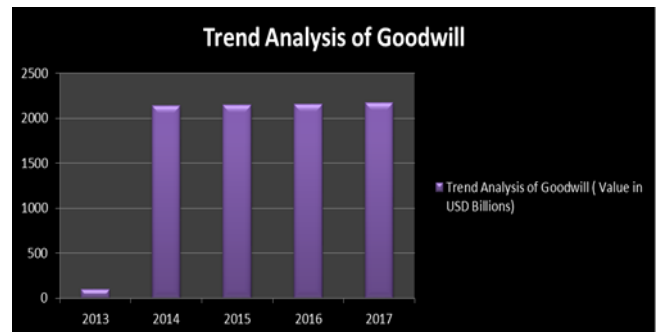


Fig 1: fig showing trend analysis of goodwill of Facebook Inc.

Table 2: Trend Analysis of Net Revenue of Facebook Inc.

Year	Net Revenue (Value in USD billions)	Trend
2013	7.872	100
2014	12.466	158.36
2015	17.928	227.74
2016	27.638	351.09
2017	40.653	516.42

Source: investor.fb.com

Net Revenue of Facebook in the year 2013 is \$7.872 billion. Subsequently in the year of 2014 which is the year of acquisition, the revenue has been increased to \$12.466 billion. The analysis shows that the net revenue of Facebook shows an increasing trend, which has increased to \$516.42 billion when compared to the base year (i.e., 2013)

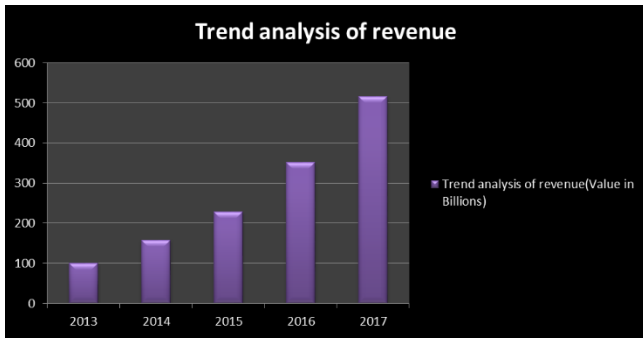


Fig 2: Fig Showing Trend Analysis of Revenue of Facebook Inc.

Table 3: Table Showing Trend Analysis of Cost and Expenses of Facebook Inc.

Year	Cost and Expenses (Value in USD billions)	Trend
2013	5.068	100
2014	7.472	147.43
2015	11.703	230.92
2016	15.211	300.14
2017	20.450	403.51

Source: investor.fb.com

Cost and expenses of Facebook Inc. in all these years have an increasing trend. Items of cost such as cost of revenue, research and development, marketing and sales, general and administrative expenses have shown steady increase in amount irrespective of the fact that Facebook Inc. has acquired Whatsapp Inc. in the year 2014.

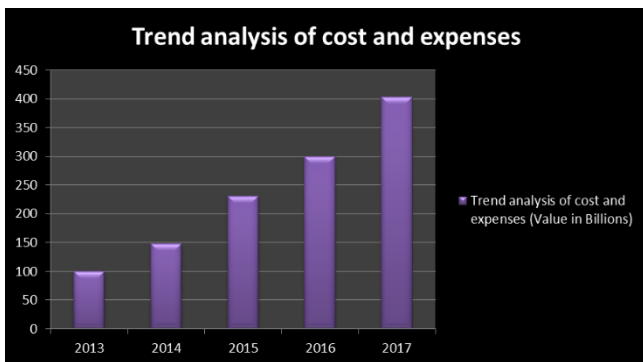


Fig 3: Fig Showing Trend Analysis of Cost and Expenses of Facebook I

Table 4: Table Showing Trend Analysis of Accounts receivable of Facebook Inc.

Year	Accounts receivable (Value in USD billions)	Trend
2013	1109	100
2014	1678	151.31
2015	2559	230.75
2016	3993	360.05
2017	5832	525.88

Source: investor.fb.com

It's seen that Accounts receivable of Facebook Inc. has got an increasing trend irrespective of acquisition of Whatsapp Inc. It's also seen that there is a steady increase in trend over the period of 5 years.

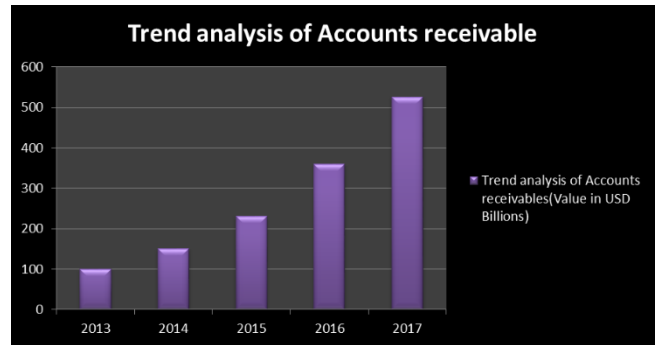


Fig 4: Fig Showing Trend Analysis of Accounts receivable of Facebook Inc.

Table 5: Table Showing Trend Analysis of Accounts payable of Facebook Inc.

Year	Account payable (Value in USD billions)	Trend
2013	87	100
2014	176	202.29
2015	196	225.28
2016	302	347.13
2017	380	436.78

Source: investor.fb.com

From the above table we can see that accounts payable of Facebook Inc. has an increasing trend before and after the acquisition of Whatsapp Inc. has taken place. Thus the fact of acquisition of Whatsapp Inc. by Facebook Inc. has no effect on Accounts payable of Facebook Inc.

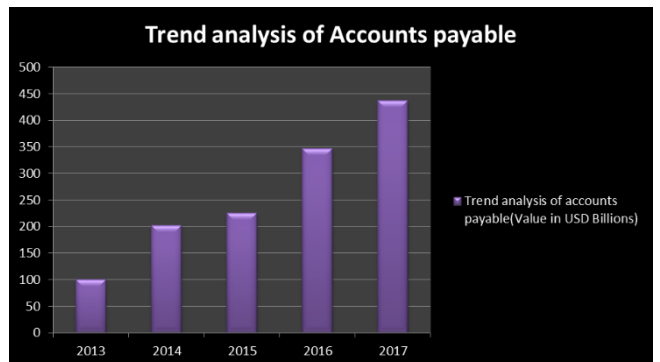


Fig 5: Fig Showing Trend Analysis of Accounts payable of Facebook Inc.

Table 6: Table Showing Trend Analysis of Retained Earnings of Facebook Inc.

Year	Retained Earnings (Value in USD billions)	Trend
2013	3159	100
2014	6099	193.07
2015	9787	309.81
2016	21670	685.98
2017	33990	1075.97

Source: investor.fb.com

From the above table we can see that there is an increase in Retained earnings of Facebook Inc. has increased steadily through the years.

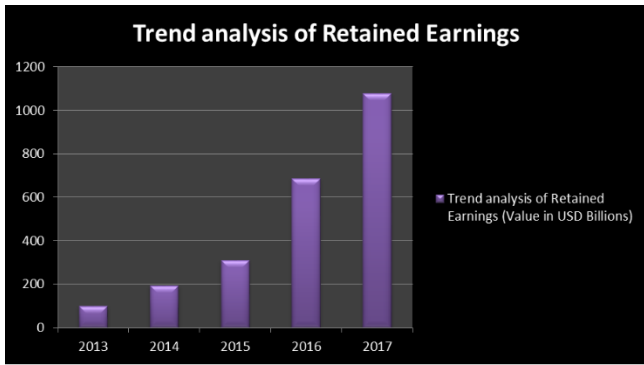


Fig 6: Fig Showing Trend Analysis of Retained Earnings of Facebook Inc.

Table 7: Table Showing Trend Analysis of Total stockholders' equity of Facebook Inc.

Year	Total stockholders' equity (Value in USD billions)	Trend
2013	15470	100
2014	36096	233.33
2015	44218	285.83
2016	59194	382.64
2017	74347	480.59

Source: investor.fb.com

From the above table we can see that there is an increase in Total stockholders' equity of Facebook Inc. has increased steadily from 2014.

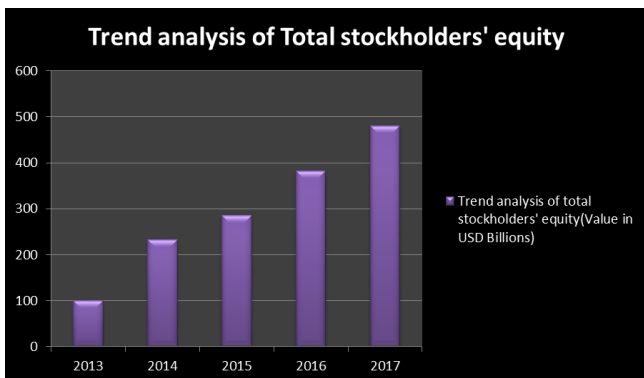


Fig 7: Fig showing Trend Analysis of Total stockholders' equity of Facebook Inc.

Findings

- Analysing the Goodwill of Facebook Inc., there has been a drastic increase in the value of goodwill since 2014. This is a positive sign for Whatsapp Inc. being acquired by Facebook Inc.
- Net revenue of Facebook Inc. has shown an increasing trend from the year 2013. The analysis shows that the net revenue of Facebook shows an increasing trend, which has increased to \$516.42 billion when compared to the base year (i.e., 2013).
- Cost and expenses of Facebook Inc. when observed has shown an increasing trend. Items of cost such as cost of revenue, research and development, marketing and sales, general and administrative expenses have shown steady increase in amount irrespective of the fact that Facebook Inc. has acquired Whatsapp Inc. in the year 2014.
- Accounts receivable, Accounts payable, Retained Earnings and Stockholders' Equity has shown an increasing trend irrespective of the fact that acquisition

has taken place whereas Prepaid expenses has shown an irregular trend over the period of five years i.e., 2013-2017

Conclusion

In Trend analysis it is clearly analysed that the Goodwill, Net Revenue, Accounts receivable, Accounts payable of Facebook shows an increasing trend post acquisition. Cost and revenue has also shown a rise after the acquisition of Whatsapp. Prepaid expenses has shown an irregular trend Subscription fees would be one of WhatsApp primary avenues to generate revenue. Thus concluding that Whatsapp plays a significant role in the global areas crucial to Facebook's growth by reaching a billion users and with the market of that size Facebook is sure to find a way to eventually cash in.

WhatsApp offers several benefits to Facebook, including a large user base in the direct messaging arena, smartphone engagement, and high international penetration across various demographics. WhatsApp's strong presence in direct messaging and international markets makes it a highly strategic investment for Facebook.

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