

Acquisition is Good for Business Financial Health?

Nazik Hussain Muhammad Sajid Rashid Khan Sajid Shabana Khadim
 Department of Management Sciences, The Islamia University of Bahawalpur, Pakistan
 Email: nazik.hussain@iub.edu.pk

Abstract

Technology is the supremacy and supremacy is your duty, effective technology is use for all betterment, not for individual gain. This script is about to evaluate the financial positing of Faebook and compare to the industry, with particular focus on Facebook decision to acquire WhatsApp in Feb, 2014 that decision is better for Facebook financial positing or not. Collecte financial statements data of Facebook and industry from December 31, 2010 to December 31, 2013, use secondary data. We find out that Facebook financial positing is strong as compare to industry but it is not growth as compare to its previous positing. So the decision of acquire to WhatsApp is better for Facebook future financial positing. Due to this study a financial manager of technology industry or any other industry suggest to upper level of management use following tactics that is use by Facebook to gain their positing if company is downturn condition. This study provide the help to students of MBA as well as MS specially finance specialization due to this study such students are able how to check company financial positing and how it is compare to the industry or competitors.

Introduction

According to the Webster online vocabulary, social media is distinct as the appearance of electronic communication (as websites for SN (social networking) and microblogging) through which consumers craft online groups of people to split information, thoughts, private messages, and others. In meticulous, channels (e-mail) and platforms (intranets) are two sort of SM (social media) extensively utilized within an association (McAfee, 2006). Based on a social presence/media richness and self-presentation/self-disclosure, Kaplan and Haenlein (2010) classified SM into blogs (Open Diary, Technirati, and LiveJournal, etc.), social networking sites (e.g. Facebook (FB), MySpace, Google+), virtual social worlds (Second Life), joint ventures (Wikipedia), communities (YouTube, Flickr) and virtual game worlds (World of Warcraft). FB communities networking that offer services to society communicate to others split their views, facts, any trials, researches etc. Mark Zuckerberg introduces this service in February 2004, with his acquaintances who studying in their college and roommates, fellow Harvard University students Eduardo Saverin, Andrew McCollum, Dustin Moskovitz and Chris Hughes. FB (Facebook) Inc. was incorporated in 2004 and is headquartered in Menlo Park, California. FB mission offer powers to public to split and craft the world further release and connected. The company's yield include FB mobile app and Website that permit public to attach, share, find out, and communicate with each one on mobile devices and personal computers. Messenger, a mobile-to-mobile messaging application available on Internet operating Services (IOS) and Android phones, a mobile app and Website that enable people to take photos or videos, customize them with filter effects, and share them with friends and followers in a photo feed or send them directly to friends. Less than a month after its launch, the FB Platform had already paying attention extra than 40,000 developers, and produced more than 1500 new apps and now April 24, 2014, it had 1.28 billion tweets this side (Facebook Statistics). FB revenue and Net Income increase some previous years see the table given below.

Revenue and Net Income USD \$ in millions. www.stockanalysis.com

Table 1

	2010	2011	2012	2013
Revenue	1,974	3,711	5,089	7,872
Net Income	606	1,000	53	1,500
Total Assets	2,990	6,331	15,103	17,895

Total FB revenue and net income has varied widely over the last four years. Revenue at above 7,872 million dollars in December 2013 and dropped to less than 1,974 million in December 2010. FB had reduced net income in December 2012 that is 53 million dollars. The main reason for decreases net income in 2012 is that to inter new competitors in the market (WhatsApp). Major source of revenue FB is online advertisement. So many users spend their time on FB. According to their mainly hot statistics, FB now hosts over 750 million clients spending over 700B minutes on the platform every month (Facebook 2011) (Facebook Statistics). Official statistics of FB (2014) also stated that review active user of fB 1.23B, 757M active users log into its site every day and 42% male consumers according to 2013 statistics (Facebook Statistics). Freshly, social networks achieved esteem in enormously. According to (Fox et al. 2009), nearly semi of all Internet consumers now utilizes social network platforms such as FB or WhatsApp etc, on a day by day basis. Further, optimistic mind-set toward SM should be answer of overall positive SM usage experience. Both the digit and the assortment (age, gender, etc.) of people

getting on social media are increasing every day. FB has user base across different countries with above 84% consumers from countries other than the US and Canada. FB users expend 927M hours per month playing games on FB (Facebook Statistics). On FB, public split more than 30B pieces of information every month and add regarding 100M new photos every day (Facebook, 2011) (Facebook Statistics). FB permits consumers on walls to post messages and on status updates. Consumers can also send images, captures, or hyperlinks. On FB website, more than 70 worldwide languages are available for message (Facebook Statistics) and more than seven millions apps and web sites are incorporated with FB (Facebook Statistics). Further every month extra than 500M people utilize apps on FB or experience FB platform on other web sites as well as smart phones and mobile devices (Facebook.com) (Facebook Statistics). FB permits consumers to post messages on walls and on status updates a SM client is likely to discover a service more valuable if he or she enjoys it. Using FB to split image or video from a vacation with grandparents and posting a very funny comment or caption can be valuable and fun for a client. On FB 1M business pages, so companies allow attract to potential customers and tell about them (Facebook Statistics). On mobiles FB active users are 1B monthly active, is the mobile phone know-how to puts your contacts with whom you connect every day are at the heart of your handset (Facebook Statistics). FB builds "HTC First" earliest smart phones to have FB Home by default with FB experts and HTC teamed. FB Messenger is a messaging app, the user text his/her friends for free to join with his/her friends. This is a smart phones app available on IOS and Android devices. Recently FB acquired Instagram for 1B\$ in this way FB boost its value. On the other hand Microsoft had invested in FB and is in merger contract together to use Bing Maps by FB platform. For FB face identification platform FB bought Face.com for allowing auto tagging characteristic on shared images. Major decision takes FB on February 19, 2014, to acquiring WhatsApp Inc. for 19B US\$ (www.forbes.com). FB pay that amount in parts that is pay \$4B in cash, \$12B FB shares and \$3B limited stock units to be approved to WhatsApp inventor and staff that will vest over 4 years (www.forbes.com). WhatsApp Inc. WhatsApp start in 2009 by Americans Brian Acton and Jan Koum (both are the CEO) they are also former human resources of Yahoo! and is set in Mountain View, California. In WhatsApp 55 employees are worked. November 10, 2013 WhatsApp monthly active clients are above 190M, every day shared 400M photos and above 10B messages every day holds by the messaging system (www.informationweek.com). In a Dec 2013 blog post, WhatsApp claimed that 400M active clients utilize their service every month (www.informationweek.com).

Summarizing the industry structure:

FB is biggest SN site and its clients 1B per month in this way it is heard for competitors to catch that positing where FB had reached. Google+ strategy, to catch that positing where FB reached due to this Google+ does work heard and smart. In the world, most of the country have their own SN, for example Wer-Kennt-Wen (English: Who-Knows-whom) one of the fames German SN site, in China exist Renren Network (English: "Everyone's Website). On VK above 100M active user in this way it is one of the largest European SN. The direct competitor of FB is the Google+ because the features and positing of Google+ is similar like FB. FB connect and stay people who is associated with, services like iMessage, Skype and Google Hangout can be a threat video calling services due to this they are attract users by allowing video communication over mobile phones and PCs. FB protect to himself by these type of threat to introduce independent text messaging apps and offer video calling. The users are also FB's clients. They are clients because they use the site and its services. Users particularly build use of that bargaining power when it comes to privacy issues. They threaten to not use FB anymore and delete their account. Customers as well are the suppliers for the reason that FB would be nil without its consumers. The magnitude of information the customers give to FB (by likes, annotations, posts, image uploads, etc) are used by FB ad to shift further advertises to the consumer's monitor. The bargaining command of consumer is high as consumer can switch to G+ but since FB has changed the meaning of socializing and most user's friends are already on FB, connect to same people on other platform does not make sense. SN market is stumpy as there is no SN site with more than 1B monthly consumers and mainly SN sites (like vk.com, renren.com, etc) are local geographically. G+ on the further hand has 1/10th monthly consumers in contrast to FB but can is well thought-out as somber threat.

Social Media Industry (SMI):

For previous few years highly need created social networks. This need increase due to technology know how and also 3G and 4G introduce. SM, such as Twitter, FB and LinkedIn, have been definite as a group of internet-based apps that build on the ideological and technological foundations of Web and that allow the creation and exchange of user generated (Kaplan and Haenlein, 2010). Hubspot, an inbound marketing firm reported several interesting and latest trends in social media. For example, 90 percent of internet users visited a social networking site each month in 2010; 33 percent of time online was spent on Facebook resulting in 53.5 billions minutes spent on Facebook by its over 800 million users; 90 millions tweets were generated every day on Twitter; in the USA, internet users spent three times longer on blogs and social networking than on e-mail

(Facebook Statistics).

LinkedIn Corp. is a professional network on the Internet focused on connecting the world's professionals. The company's proprietary platform enables members to create, manage and share their professional identity online, build and engage with their professional network, access shared knowledge and insights, and find business opportunities, enabling them to be more productive and successful. Its comprehensive platform provides members with solutions, including applications and tools, to search, connect and communicate with business contacts, learn about attractive career opportunities, join industry groups, research organizations and share information. The company was formerly known as LinkedIn Ltd. and changed its name to LinkedIn Corp. in January 2005. LinkedIn was founded by Allen Blue, Reid G. Hoffman, Jean-Luc Vaillant, Konstantin Guericke and Eric Ly in November 2002.

Twitter, Inc. is a global platform for public self-expression and conversation in real time. It provides a network that connects users to people, information, ideas, opinions, and news. The company's application provides social networking services and micro-blogging services through mobile devices and the Internet. It can also be used as a marketing tool for businesses. Twitter was founded by Jack Dorsey, Christopher Isaac Stone, Noah E. Glass, Jeremy LaTrasse, and Evan Williams on March 21, 2006 and is headquartered in San Francisco, CA.

Financial Ratio Analysis:

Financial ratio of FB and Industrial financial ratio are given below. FB financial ratio is compare to Industry for the period December 31, 2010 to December 31, 2013 that is four years. These financial ratio data are collect from the web site www.stockanalysis.com and after some technique use to calculate these ratios.

Table 1.2

Title of Ratios	Industry Ratios				Company Ratios At the end of 31 st December			
	2010	2011	2012	2013	2010	2011	2012	2013
Profitability Ratios%								
Return on Equity	25.92%	26.88%	21.59%	23.32%	28.03%	20.41%	0.45%	9.70%
Return on Assets	13.22%	13.75%	11.39%	12.53%	20.27	15.80%	0.35%	8.38%
Operating Profit Margin	23.91%	24.54%	21.63%	23.69%	52.28%	47.32%	10.57%	35.62%
Net Profit Margin	18.35%	18.98%	16.18%	18.91%	30.70%	26.95%	1.04%	19.05%
Efficiency Ratios								
Average Collection Period	49 days	45 days	45 days	46 days	69 days	54 days	52 days	51 days
Average Payment Period	62 days	58 days	59 days	59 days	21 days	27 days	17 days	17 days
Total Asset Turnover	0.72	0.72	0.70	0.66	0.66	0.59	0.34	0.44
Fixed Assets Turnover	6.78	6.86	6.53	6.18	3.44	2.52	2.13	2.73
Working Capital Turnover	3.11	3.01	2.98	2.54	1.06	1.00	0.50	0.66
Liquidity Ratios								
Current Ratio	1.83	1.95	1.97	2.13	5.77	5.12	10.71	11.88
Quick Ratio	1.53	1.63	1.67	1.83	5.55	4.96	9.83	11.42
Solvency Ratios								
Debt to Equity Ratio	0.26	0.29	0.26	0.27	0.22	0.14	0.20	0.03
Debt to Capital	0.21	0.23	0.21	0.22	0.18	0.12	0.17	0.03
Interest Coverage	50.04	49.00	43.10	46.50	46.82	41.36	10.69	50.18

Return on investment (ROI) shows that return on assets after payments of all expenses and taxes. FB ROI is high in initional year 2010 and 2011 but remaning years it is decreases if we compare to industry. Return on equity (ROE) show that profitability to the shareholders of an organization after payment of all expenses and taxes. FB ROE is high in the year 2010 but it is low as compare to industry after year 2010. FB operating profit margin and net profit margin is stong as compare to industry. It is indicate that FB cost of sale is low as compare to industry. Average collection period indicate that quality of receivable and who much firm successfully chances receive cash from their creditors. From above table show efficient everage collection period as compare to industry. Average payment period is less as compare to industry. It is explain that FB collect from their creditors quickly and pay to their debtors fast as compare to industry. Total Assets Turnover shows that overall effectiveness of an organization to use their assets maximum firm sales. FB total assets turnover fixed assets turnover and working capital turnover so it is indicate that industry use assets properly to increase their sales. Liquidity ratios indicate that how much quickly firm current assets is convert into cash and able to pay firm

current liabilities. In this ratio analysis Facebook (FB) current ratio and quick ratio are so strong from industry. Debt to equity ratio, debt to capital ratio and interest coverage ratio is better if we see above table and compare to industry.

DuPont System of Financial Analysis:

DuPont analysis of FB shows given below. Story explains DuPont analysis as explain financial ratio. FB must focus to controlling their return on assets cost. Relative to Industry than FB take advantage in leverage ratio for four years. FB return on equity id low due to its lower net profit margin. While one would expect a somewhat lower net profit margin for a firm with a higher leverage ratio (firm has to pay interest to service the debt that gives the higher leverage ratio), FB case there are other operational inefficiencies impacting the net profit margin because the over all ROE is less as compare to the Industry ROE if we compare it.

www.stockanalysis.com **Table 1.3**

	Technology Industry				Facebook			
	ROE (Return on Equity)=	NPM (Net profit Margin) x	TAT (Total Asset Turnover)x	Leverage	ROE=	NPM*	TAT*	Leverage
2010	25.92%	18.35%	0.72	1.962	9.70%	19.05%	0.44%	1.16
2011	26.88%	18.98%	0.72	1.967	20.41%	26.95%	0.59%	1.29
2012	21.59%	16.18%	0.70	1.91	0.45%	1.04%	0.34%	1.28
2013	23.32%	18.91%	0.66	1.87	9.70%	19.05%	0.44%	1.16

ROE (Return on Equity) = NPM (Net Profit Margin) x TAT (Total Asset Turnover) x Leverage

Large fixed and variable expenses are negatively impact on ROA. Such expenses are easily control able specially variable expenses and easily to evaluate these type of expenses. If FB to increase their sales revenue then to help provide ROA situation. It is good ROA condition in the industry but the condition of FB ROA is poor FB need to evaluate why it is poor it's ROA.

www.stockanalysis.com **Table 1.4**

	Technology Industry			Facebook		
	ROA (Return on Assets)=	NPM (Net profit Margin) x	TAT (Total Asset Turnover)x	ROA=	NPM*	TAT*
2010	13.22%	18.35%	0.72	8.38%	19.05%	0.44
2011	13.75%	18.98%	0.72	0.35%	1.04%	0.34
2012	11.39%	16.18%	0.70	15.80%	26.95%	0.59
2013	12.53%	18.91%	0.66	20.27%	30.70%	0.66

ROA (Return on Assets) = NPM (Net Profit Margin) x TAT (Total Assets Turnover)

Short Term Liquidity Management:

Current ratio and quick ratio is better if we compare to th industry. Short term liquidity ratios explain on the above indicate that FB liquidity positing is solid. FB very solid improvement in the liquidity positing from 2000 to 2013 if compare to the industry sector. Some improvement in liquidity positing comes from decrease accrued property and equipments and the portion of long term debt. On the other hand if we see cah and cash equivalent then it is significantly improve from year 2000 (18.57%) to 2013 (59.70%). Cash and cash equivalent ratio increase 41.13% increase during this period. In addition to Micro Soft invest in FB due to this net income increase and liquidity positing is significantly strong of FB. If we see the percentage of current assets it is increase every year and amount of current liabilities is decrease every year so it is better for FB future.

USD \$ in millions www.stockanalysis.com Table 1.5

	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Cash and cash equivalents	(18.57%) 3,323	(15.78%) 2,384	(23.88%) 1,512	(59.70%) 1,785
Marketable Securities	(45.41%) 8,126	(47.95%) 7,242	(37.85%) 2,396	–
Account Receivable, net of allowance for doubtful account	(6.20%) 1,109	(4.76%) 719	(8.64%) 547	(12.47%) 373
Income Tax Refundable	(0.28%) 51	(2.99%) 451	–	–
Prepaid expenses and other current assets	(2.58%) 461	(3.12%) 471	(2.35%) 149	(2.94%) 88
Current Assets	(73.04%) 13,070	(74.60%) 11,267	(72.72%) 4,604	(75.12%) 2,246
Accounts payable	87	65	63	29
Developer partners payable	181	169	171	75
Accrued property and equipment	87	46	–	–
Accrued compensation and benefits	196	146	57	–
Other current liabilities	272	231	239	137
Accrued expenses and other current liabilities	555	423	296	137
Deferred revenue	13	8	75	35
Deposits	25	22	15	7
Deferred revenue and deposits	38	30	90	42
Current portion of capital lease obligations	239	365	279	106
Current Liabilities	1,100	1,052	899	389
Current Ratio	11.88	10.71	5.12	5.77
Quick Ratio	11.42	9.83	4.96	5.55
Cash Ratio	10.41	9.15	4.35	4.59

Capital Structure and Debt Management:

Due to this data, it is evident that FB debt increase every year. If we compare to the industry then we find out that the industry uses high debt as compare to the FB. This debt ratio increase every year due to decrease the shareholders' equity. FB total debt is decreasing every year it is good for FB. The significant amount of long term debt FB in December 31, 2012 that is 1,500 million US\$. In 2012 FB fixed and variable able expenses increases due to this FB debt increase in that year.

FB need to increase shareholder equity if FB not to increase Shareholder equity then it is expected that FB use high debt at the end of year 2014. Due to this FB acquire WhatsApp to increase their shareholders' equity and reduce their expenses.

Selected Financial Data (USD \$ in millions) www.stockanalysis.com Table 1.6

	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Current portion of capital lease obligations	239	365	279	106
Capital lease obligations, less current portion	237	491	398	117
Long term Debt	–	1,500	–	250
Total Debt	476	2,356	677	473
Total stockholders' equity	15,470	11,755	4,899	2,162
Debt to Equity, Comparison to Industry				
Facebook, Inc.	0.03	0.20	0.14	0.22
Industry, Technology	0.27	0.26	0.29	0.26

Summary and Conclusions:

In this script we analysis, financial ratio of FB and compare to the Industry. Due to this financial ratio analysis, we find out that FB financial positing is good from the Industry but if we compare to Facebook past performance then we find out that Facebook financial positing come to downward. FB financial positing does not boost up as compared to their past performance. FB trend come to decline that is shown in table 1.2 FB return on equity is

decreasing from year 2010 (28%) to 2013 (9.7%). Most of the ratios shown that FB financial performance is decreases as compare to its past performance shown in table 1.2. If we see the ratio of Return on Assets (ROA) in table 1.2 in the year 2012 (0.35%) that is highly decrease if we compare to 2011 (15.80%). On the other hand if we see this ratio (ROA) in December 31, 2013 (8.38%) that is some incremental is occurring. FB shareholder equity is decreases year by year see table 1.6. From the year 2011 FB lose their financial positing due to enter more competitors in the technology industry like WhatsApps, LinkedIn etc. Major decision takes FB on February 19, 2014, to acquiring WhatsApp Inc. for 19B US\$. FB pay that amount in parts that is pay \$4B in cash, \$12B FB shares and \$3B limited stock units to be approved to WhatsApp inventor and staff that will vest over 4 years. First reason of FB acquire to WhatsApp due to increase popularity in the world of WhatsApp. November 10, 2013 WhatsApp monthly active clients are above 190M, every day shared 400M photos and above 10B messages every day holds by the messaging system. In a Dec 2013 blog post, WhatsApp claimed that 400M active clients utilize their service every month. Second major reason is that WhatsApp uses same characteristics provide to their clients as FB provide that. Due to this FB clients move to WhatsApp and FB financial positing is decreases in the year 2011. The third and major reason of FB to acquire WhatsApp that is retain their customers and achieve to their past financial positing. FB use horizontal integration (acquire to their competitor). If FB not acquire to WhatsApp then FB invests in their capital assets and makes their assets more efficient as compare to WhatsApp then its expenses increases, revenue decreases, threat of competitor is also exist and their clients move to WhatsApp in future. Due to this FB use horizontal integration. It will be better for FB financial positing after this major decision of acquiring to WhatsApp. Because FB financial positing is not too good on the other hand their clients move to WhatsApp.

REFERENCES

- 1) <http://investing.businessweek.com/research/stocks/financials/ratios.asp?ticker=FB>
(<http://investing.businessweek.com/research/stocks/financials/ratios>)
- 2) Kaplan, A.M. and Haenlein, M. (2010), "Users of the world, unite! The challenges and opportunities of social media", *Business Horizons*, Vol. 53 No. 1, pp. 59-68. (Kaplan, A.M. and Haenlein, M., 2010)
- 3) McAfee, A.P. (2006), "Enterprise 2.0: the dawn of emergent collaboration", *MIT Sloan Management Review*, Vol. 47 No. 3, pp. 21-28. (McAfee, A.P., 2006)
- 4) <http://www.marketwatch.com/investing/stock/lknd/profile> (ratio of LinkedIn)
(<http://www.marketwatch.com/investing/stock/lknd/profile>)
- 5) <http://www.marketwatch.com/investing/stock/twtr/profile> (ratio of twitter)
(<http://www.marketwatch.com/investing/stock/twtr/profile>)
- 6) <http://www.stock-analysis-on.net/NASDAQ/Company/Facebook-Inc/Ratios/Profitability> (FB Ratios)
(<http://www.stock-analysis-on.net/NASDAQ/Company/Facebook-Inc/ratios/Profitability>)

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

