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## **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. The tools used for analysis are Cash flow statements and Comparative balance sheet. Cash flow for operating activities, investing activities and financing activities are analysed and comparative balance sheet for five years (2013-2017) are calculated to know the financial performance of Facebook on acquisition of Whatsapp. Findings from the analysis are discussed in operating activities there is a steady growth for Facebook, in investing activities the cash flow is constantly reducing, in financing activities the cash flow is inconsistent for Facebook post-acquisition of Whatsapp. The Comparative Balance sheet shows an increase in the total assets and total liabilities, including shareholders fund of Facebook after the acquisition of Whatsapp. Thus the acquisition of Whatsapp plays a significant role in the global areas crucial to Facebook's growth.

**Keywords:** Cash flow, comparative balance sheet, acquisition, facebook, whatsapp

### **Introduction**

An acquisition is a situation whereby one company purchases most or all of another company's shares in order to take control. An acquisition occurs when a buying company obtains more than 50% ownership in a target company. As part of the exchange, the acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders. A purchasing company can finance an acquisition by raising private equity, receiving a bank loan, or striking a mezzanine financing deal that involves elements of both debt and equity financing. It's also common for sellers to finance part of an acquisition; seller financing is more common in conjunction with a bank loan. 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.

### **Cash Flow Statement**

In financial accounting, a cash flow statement, also known as statement of cash flows, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. According to Accounting Standards Board, AS-3 deals with Cash Flow Statements.

### **Comparitive Balance Sheet**

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For example, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. Another variation is to present the balance sheet as of the end of each month for the past 12 months on a rolling basis. In both cases, the intent is to provide the reader

with a series of snapshots of a company's financial condition over time, which is useful for developing trend line analyses.

**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. 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.

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, along with fellow Harvard College students and roommates Eduardo Saverin, Andrew McCollum, Dustin Moskovitz and Chris Hughes. Facebook can be accessed from a large range of devices with Internet connectivity, such as desktop computers, laptops and tablet computers, and smart phones. Facebook has more than 2.2 billion monthly active users as of January 2018.

**Details of Acquisition**

Date of acquisition : 18<sup>th</sup> February 2014

- Acquisition amount : \$ 19 billion
- It includes
  - \$ 4 billion in cash
  - \$ 12 billion worth of Facebook shares
  - \$ 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.

**Objectives of Study**

- To find the cash inflows and outflows of Facebook after the acquisition of Whatsapp.
- To compare the balance sheets of Facebook after the acquisition of Whatsapp.

**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**

The following tools have been applied in the study

- Cash flow statement
- Comparative balance sheet

**Limitations**

- Comparative balance sheet 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**

- Nancy K. Napier (1989) <sup>[1]</sup> The article has three aims. First, it reviews recent research on corporate mergers and acquisitions and their impact on human resource issues. Second, it proposes a framework for classifying mergers and acquisitions. Finally, it provides some research questions for examining merger types, human resource management issues and major outcomes. This article is titled “Mergers and Acquisitions, Human Resource Issues and Outcomes: A Review and Suggested Typology”.
- Afsaneh Nahavandi and Ali R. Malekzadeh (1998) <sup>[2]</sup> The study deals with Acculturation in Mergers and Acquisitions. A model focusing on the process of adaptation and acculturation in mergers and acquisitions is presented. It is proposed that the degree of compatibility between the acquirer and the acquired organizations' preferred modes of acculturation will affect the level of acculturative stress. The latter will in turn either facilitate or hinder the implementation of the merger. This article is titled “Acculturation in Mergers and Acquisitions”.
- Deepak K. Datta (1991) <sup>[3]</sup> Based on 173 acquisitions in the U.S. manufacturing industry, this study examines the impact of organizational differences between acquiring and acquired firms on post-acquisition performance. The findings indicate that differences in top management styles have a negative impact on performance in acquisitions characterized by both high and low levels of post-acquisition integration. However, no such relationship was observed between differences in the reward and evaluation systems and post-acquisition performance in either the high or low integration subgroups. Implications of the findings, along with directions for future research, have been discussed in the concluding section of this paper. This article is titled “Organizational fit and acquisition performance: Effects of post-acquisition integration”.

**Analysis and Interpretation**

**Cash Flow Statement**

**Table 1:** Table Showing the Net Cash Flow From Operating Activities Of Facebook Inc.

Year	Net Cash Flow from Operating Activities of Facebook Inc. (value in USD Billions)
2013	4.22
2014	5.46
2015	8.6
2016	16.11
2017	24.22

Source: www.marketwatch.com

It's clearly seen that the cash flows from the operating activities is positive. The cash flow from operating activities of Facebook Inc. has a steady increase even after the

acquisition of Whatsapp Inc. in the year 2014. When compared with 2013, cash flows has steadily increased by 29.38%, 57.51% in the years 2014, 2015 respectively

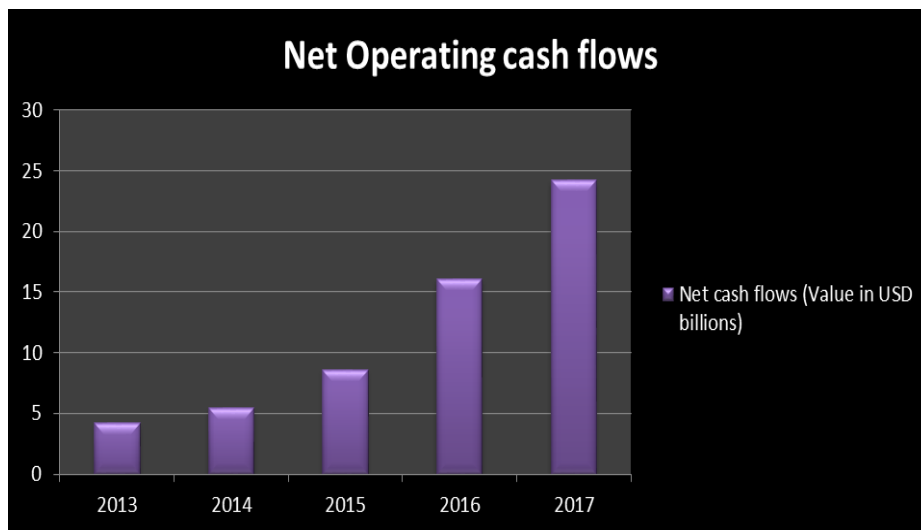


Chart 1: Chart showing net operating cash flows of facebook Inc.

Table 2: Table Showing Net Cash Flow from Investing Activities of Facebook Inc.

Year	Net cash flow from Investing Activities of Facebook Inc. (Value in USD billions)
2013	-2.62
2014	-5.91
2015	-9.43
2016	-11.74
2017	-20.04

Source: www.marketwatch.com

From the above table, its seen that the cash flow from investing activities is constantly reducing irrespective of the fact that acquisition has taken place. This is due to the fact that there has been capital expenditures in all these five years and there has been no sale of any fixed asset. There has also been a constant increase in the purchase of investments which has resulted in negative cash flows from investing activities.

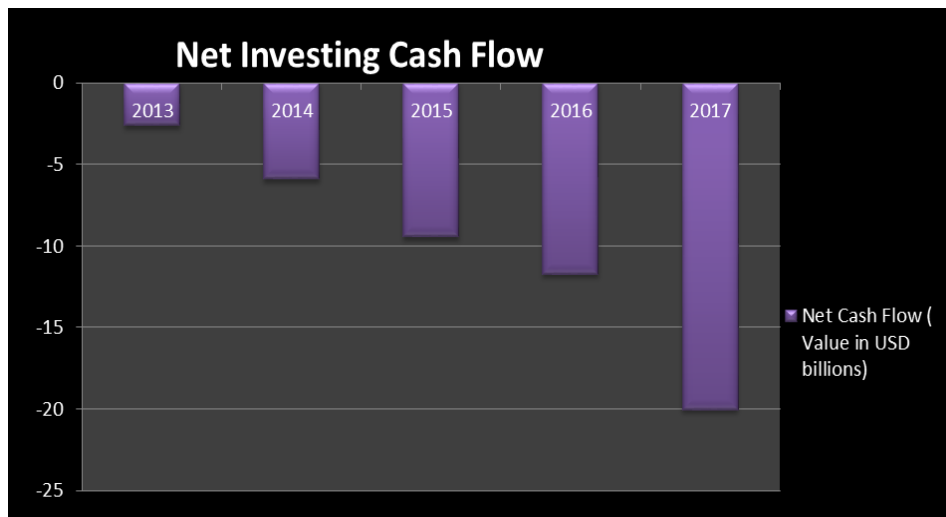


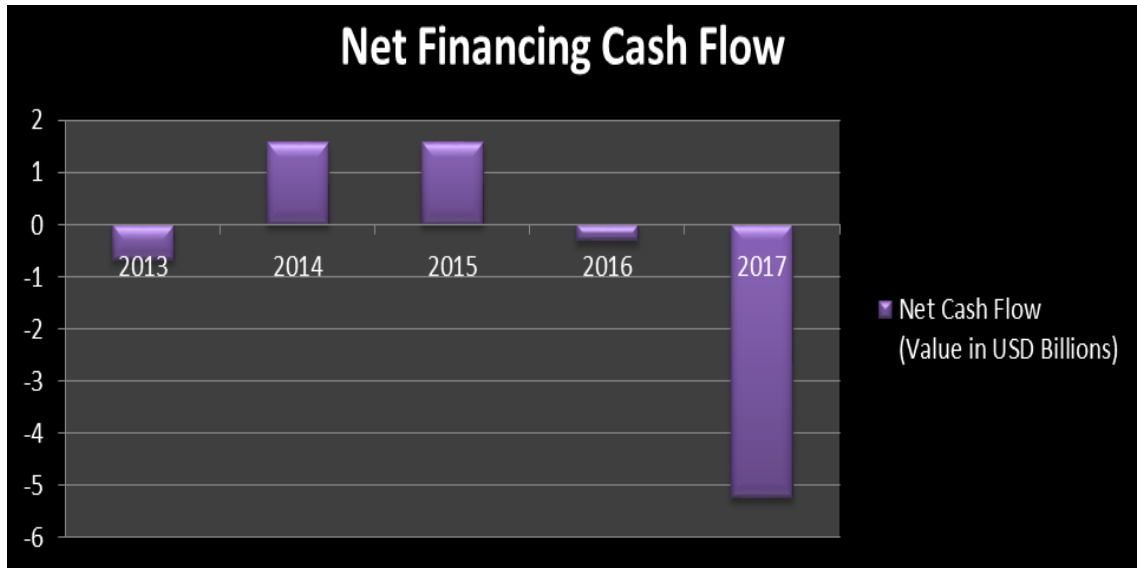
Chart 2: Chart Showing Net Cash Flow From Investing Activities Of Facebook Inc.

Table 3: Table Showing Net Cash Flow From Financing Activities Of Facebook Inc.

Year	Net Cash flow from Financing Activities of Facebook Inc. (Value in USD Billions)
2013	-0.667
2014	1.57
2015	1.58
2016	-0.31
2017	-5.24

Source: www.marketwatch.com

Net financing cash flow in the year 2013 is negative due to negative balances in funds and reduction in long term debts whereas in 2016 and 2017, there has been changes in stock and repurchase of common & preferred stock. In 2013, there has been reduction in long term debt, the use of funds is more than the sources which has led to a negative cash flow from financing activities in that year. In 2016, reduction in long term debt of \$312 million has made the cash flow negative. In 2017, there has been use of funds and source of funds remains nil which has led to a negative financing cash flow.



**Chart 3:** Chart Showing Net Cash Flow From Financing Activities Of Facebook Inc.

### Comparative Balance Sheet

**Table 4:** Comparative Balance Sheet of Facebook Inc. as of December 2013 and 2014

Particulars	2013	2014	Difference	Percent
<b>Assets</b>				
<b>Current assets</b>				
Cash	3323	4315	992	29.85%
Marketable securities	8126	6884	-1242	-15.28%
Accounts receivable	1109	1678	569	51.31%
Prepaid expenses	512	793	281	54.88%
Total current assets	13070	13670	600	4.59%
Intangible assets	2882	3967	1085	37.65%
Goodwill	839	17981	17142	2043%
Property and equipment(net)	-	-	-	-
Other assets	221	637	416	188.23%
Total Assets	17895	40184	22289	124.55%
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable	87	176	89	102.29%
Partner's Payable	181	202	21	11.60%
Accrued Expenses	555	866	311	56.03%
Deferred Revenue & Deposits	38	66	28	73.68%
Current Portion Of Capital Lease Obligation	239	114	-125	-52.30%
Total Current Liabilities	1100	1424	324	29.45%
Capital Lease Obligation Le Current Portion	237	119	-118	-49.79%
Other Liabilities	1088	2545	1457	133.92%
Total Liabilities	2425	4088	1663	68.58%
<b>Stockholder's Equity</b>				
Additional Paid Up Capital	12297	30225	17928	145.79%
Accrued Other Comprehensive (Loss)Income	14	-228	-214	-1528%
Retained Earnings	3159	6099	2940	93.07%
Total Stockholder's Equity	15470	36096	20626	133.33%
Total Liabilities & Sh Equity	17895	40184	22289	124.55%

(Value in USD Billions)

Source: investor.fb.com

The above comparative balance sheet for the years 2013 and 2014 reveals that

- There has been an increase in the current assets by \$ 600 million i.e., 4.59%.
- Items of current assets like cash, accounts receivable, prepaid expenses have shown an increase in their values whereas marketable securities has decreased by 15.28%.
- Goodwill has increased by \$ 17142 million.
- Other assets has increased by \$ 416 million i.e., 188.23%.
- Total current liabilities has increased by 29.45%.
- Total shareholders' equity has increased by 133.33%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 124.55% each.

**Table 5:** Comparative Balance Sheet of Facebook Inc. as of December 2014 and 2015 (Value in USD Billions)

Particulars	2014	2015	Difference	Percent
<b>Assets</b>				
<b>Current assets</b>				
Cash	4315	4907	592	13.72%
Marketable securities	6884	13527	6643	96.50%
Accounts receivable	1678	2559	881	52.50%
Prepaid expenses	793	659	-134	16.89%
Total current assets	13670	21652	7982	58.39%
Intangible assets	3967	3246	-721	18.17%
Goodwill	17981	18026	45	0.25%
Property and equipment(net)	-	5687	-	-
Other assets	637	796	159	24.96%
Total Assets	40184	49407	9223	22.95%
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	176	196	20	11.36%
Partner's payable	202	217	15	7.42%
Accrued expenses	866	1449	583	67.32%
Deferred revenue & deposits	66	56	-10	-15.15%
Current portion of capital lease obligation	114	7	-107	-93.86%
Total current liabilities	1424	1925	501	35.18%
Capital lease obligation le current portion	119	107	-12	10.08%
Other liabilities	2545	3157	612	24.04%
Total Liabilities	4088	5189	1101	26.93%
<b>Stockholder's equity</b>				
Additional paid up capital	30225	34886	4661	15.42%
Accrued other comprehensive (loss)income	-228	-455	-683	-299.56%
Retained earnings	6099	9787	3688	60.47%
Total stockholder's equity	36096	44218	8122	22.50%
Total Liabilities & Sh Equity	40184	49407	9223	22.95%

Source: investor.fb.com

The above comparative balance sheet for the years 2014 and 2015 provides that

- There has been an increase in the current assets by \$ 7982 million.
- Items of current assets like cash, accounts receivable, marketable securities have shown an increase in their values whereas prepaid expenses has decreased by 16.89%.
- Goodwill has increased by \$ 45 million whereas other intangible assets have decreased by \$ 721 million.
- Other assets have increased by \$ 159 million i.e., 24.49%.
- Total current liabilities has increased by 35.18%.
- Total shareholders' equity has increased by 22.5%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 22.95% each.

**Table 6:** Comparative Balance Sheet of Facebook Inc. as of December 2015 and 2016 (Value in USD Billions)

Particulars	2015	2016	Difference	Percent
<b>Assets</b>				
<b>Current assets</b>				
Cash	4907	8903	3996	81.43%
Marketable securities	13527	20546	7019	51.89%
Accounts receivable	2559	3993	1434	56.03%
Prepaid expenses	659	959	300	45.52%
Total current assets	21652	34401	12749	58.89%
Intangible assets	3246	2535	-711	-21.90%
Goodwill	18026	18122	96	0.53%
Property and equipment(net)	5687	8591	2904	51.06%
Other assets	796	1312	516	64.82%
Total Assets	49407	64961	15554	31.48%
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	196	302	106	54.08%
Partner's payable	217	280	63	29.03%
Accrued expenses	1449	2203	754	52.03%
Deferred revenue & deposits	56	90	34	60.71%
Current portion of capital lease obligation	7	-	-	-
Total current liabilities	1925	2875	950	49.35%
Capital lease obligation le current portion	107	-	-	-
Other liabilities	3157	2892	-265	-8.39%

Total Liabilities	5189	5767	578	11.14%
Stockholder's equity				
Additional paid up capital	34886	38227	3341	9.57%
Accrued other comprehensive (loss) income	-455	-703	-1158	-254.51%
Retained earnings	9787	21670	11883	121.41%
Total stockholder's equity	44218	59194	14976	33.87%
Total Liabilities & SH Equity	49407	64961	15554	31.48%

Source: investor.fb.com

The above comparative balance sheet for the years 2015 and 2016 reveals the following:

- There has been an increase in the current assets by \$ 12749 million.
- All the items of current assets like cash, accounts receivable, marketable securities and prepaid expenses have shown an increase in their values.
- Goodwill has increased by \$ 96 million whereas other intangible assets have decreased by \$ 711 million.
- Property and equipment have increased by 51.06%.
- Other assets have increased by \$ 516 million i.e., 64.82%.
- Total current liabilities has increased by 49.35%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 31.48% each.

**Table 7:** Comparative Balance Sheet of Facebook Inc. as of December 2016 and 2017 (Value in USD Billions)

Particulars	2016	2017	Difference	Percent
<b>Assets</b>				
<b>Current assets</b>				
Cash	8903	8079	-824	-9.25%
Marketable securities	20546	33632	13086	63.69%
Accounts receivable	3993	5832	1839	46.05%
Prepaid expenses	959	1020	61	6.36%
Total current assets	34401	48563	14162	41.17%
Intangible assets	2535	1884	-651	-25.68%
Goodwill	18122	18221	99	0.54%
Property and equipment(net)	8591	13721	5130	59.71%
Other assets	1312	2135	823	62.73%
Total Assets	64961	84524	19563	30.11%
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	302	380	78	25.83%
Partner's payable	280	390	110	39.29%
Accrued expenses	2203	2892	689	31.28%
Deferred revenue & deposits	90	98	8	8.89%
Current portion of capital lease obligation	-	-	-	-
Total current liabilities	2875	3760	885	30.78%
Capital lease obligation le current portion	-	-	-	-
Other liabilities	2892	6417	3525	121.88%
Total Liabilities	5767	10177	4410	76.46%
<b>Stockholder's equity</b>				
Additional paid up capital	38227	40584	2357	6.16%
Accrued other comprehensive (loss) income	-703	-227	-930	-132.29%
Retained earnings	21670	33990	12320	56.85%
Total stockholder's equity	59194	74347	15153	25.59%
Total Liabilities & Sh Equity	64961	84524	19563	30.11%

Source: investor.fb.com

The above comparative balance sheet for the years 2016 and 2017 shows that

- There has been an increase in the current assets by \$ 14162 million.
- All the items of current assets like accounts receivable, marketable securities, prepaid expenses have shown an increase in their values whereas cash has decreased by 9.25%.
- Goodwill has increased by \$ 99 million whereas other intangible assets have decreased by \$ 651 million.
- Property and equipment have increased by 59.71%.
- Other assets have increased by \$ 823 million i.e., 62.73%.
- Total current liabilities has increased by 30.78%.
- Total shareholders' equity has increased by 25.59%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 30.11% each.

#### Findings

- Cash flow from operating activities of Facebook Inc. is positive in all the five years taken into consideration i.e., 2013-2017. The cash flows have a steady increase particularly after acquisition of Whatsapp Inc. When compared with 2013, cash flows has steadily increased by 29.38%, 57.51% in the years 2014, 2015 respectively which can be considered to be a positive sign of acquisition.
- Constant increase in purchase of investments, capital expenditures and the fact that there has been no sale of any fixed asset has led to negative investing cash flows

- in all these five years. Irrespective of the fact that Whatsapp Inc. has been acquired by Facebook Inc. there has been a constant reduction in the cash flow from investing activities.
- Net financing cash flow in the year 2013 is negative due to negative balances in funds and reduction in long term debts whereas in 2016 and 2017, there has been changes in stock and repurchase of common & preferred stock.
  - Comparative balance sheet for the years 2013 and 2014 shows that assets and liabilities have increased by \$22289 billion or 124.55% each. The total shareholders equity has increased by 22.5%. Goodwill has increased by \$ 45 million whereas other intangible assets have decreased by \$ 721 million.
  - While comparing the balance sheets of 2014 and 2015, it's seen that the total assets and total liabilities including the shareholders equity has increased by \$9223 billion or 22.95%.
  - Comparative balance sheet for the years 2015 and 2016 shows that property and equipment have increased by 51.06%. The assets and liabilities including shareholders equity has increased by \$15554 billion or 31.48%.
  - While comparing the balance sheets of 2016 and 2017, it's seen that the total assets and total liabilities including the shareholders equity has increased by \$19563 billion or 30.11%. There has been an increase in the current assets by \$ 14162 million. Property and equipment have increased by 59.71%.

4. Facebook Inc. Annual reports from the year, 2013 – 2017.
5. ICAI's Accounts Study Material
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### Conclusion

From the above analysis it is understood that cash flows from operating activities, investing activities and financing activities is better after the acquisition of WhatsApp. In cash flows from operating activities there is a steady growth for Facebook after the acquisition of WhatsApp. In investing activities the Cash flow is constantly reducing post-acquisition, since there has been capital expenditure in all five years and there has been no sale of fixed assets, the constant increase in purchase of investment has resulted in negative cash flow for Facebook. In Financing activities the cash flow is inconsistent, there is a growth of cash flow in 2014 and 2015, whereas cash flow falls in 2016 and 2017 due to the changes in stock and repurchase of common and preferred stock. The Comparative Balance sheet shows an increase in the total assets and total liabilities, including shareholders fund of Facebook after the acquisition of Whatsapp. 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.

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