

LIUC – Università Cattaneo
Laurea Magistrale in Economia Aziendale e Management
Course: Entrepreneurial Ecosystems

WhatsApp acquisition

Case Study - 19 febbraio 2014

COST OF THE ACQUISITION

- Facebook has given to WhatsApp stakeholders **16 Billions \$** plus **3 Billion \$** as stock options.
- Is it worth for a so young company?
- Only the future will say if the price is fair or not.

REMARKS ABOUT THE ACQUISITION

- In accordance with Wade Roush, Facebook, buying a network of 450 millions of users, open the door of the telecommunications market competing against mobile operators.
- In 2009, Facebook decided not to hire Brian Acton, one of the two founders of WhatsApp, who on Twitter commented: *"Facebook turned me down. It was a great opportunity to connect with some fantastic people. Looking forward to life's next adventure"*. It seems that Acton, a few months before, had get bumped off the boat also from Twitter.

SEQUOIA REMARKS (1/2)

Sequoia in 2011 invested \$8M for 15% of WhatsApp.
Today its value is about \$3.5B, a multiplier more than 60.
Their remarks useful for the evaluation are:

- 1) MARKET: WhatsApp revolutionized the big market of SMS ruled by big telecom companies, as in the past Skype made the same on telephone call
- 2) FOCUS: WhatsApp is focused to do only one thing but very well
- 3) USERS: WhatsApp has succeed to achieve a big number of users (450 million). So many active users are a gold mine.

SEQUOIA REMARKS (2/2)

- 4) VIRALITY: So many users and they multiply with low acquisition cost.
- 5) QUALITY: A solid product that works very well
- 6) BUSINESS MODEL: A courageous revenue model that doesn't need advertising.

The price is right? We'll find out only after. Don't forget that price and value are not always the same thing. Price is established by demand and supply and many things can get in the way. And when there is competition (we know for sure that Google made an offer for WhatsApp) prices grow very much.

AGAIN ABOUT EVALUATION

At least about **1.3/1.5B\$ net profit per year** could justify the Whatsapp cost.

We don't know the financial statements of Whatsapp because it's not a publicly traded company. It looks profitable with revenues of about 20 million dollars.

So numbers very far from those requested, from a financial point of view, to justify such an evaluation.

The evaluation in the last year has increased more than tenfold: one year ago there was a round headed by Sequoia with an evaluation of 1.5 Billion.