

The friendfinder networks inc marketing essay

[Business](#), [Marketing](#)



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Executive Summary

Devry, LLC Board of Directors requested to perform a due diligence regarding to whether Facebook meets the criteria set forth by the board which governs assets selection and addition to the existing LLC funds. The due diligence report will evaluate Facebook's potential to have sustainable growth and return based on current fundamentals strengths and it future ability to maximize shareholders wealth . The board believes that FB potential success in diversifying in the following five main areas in its operations is key in LLC decision in add FB to the firm existing Growth Fund. Facebook's partnership with Microsoft and its potential for expanding their search database to match Google's or creating their own search engine can increase revenue through advertising and increased traffic. Facebook

introduction of Graph Search is a step in its long term objective to capture 1 percent-5 percent of search advertisement generated by Google. The potential impact on FB revenue in the near future is \$0. 5B. Voice and video over the internet is one of the areas that Facebook has potential growth and enhancement of the brand and client loyalty. The ability of Skype to branch into this service will not only compete with companies that offer voice and video over internet but will also put a dent in the revenue stream of the major telecommunication companies. FB with its global reach is poised to capture 1 percent of this industry capitalization which will add \$1. 0B to its value by 2017. Currently, Facebook has a decent advertising revenue stream. The market hinges Facebook's future success on its ability to move toward mobile phones from desktop presence. Within a year Facebook managed to double its client base presence on mobile and to have more mobile users than desktop users by the end of 2012. FB's success in this shift makes it the number 1 firm in mobile presence. Statistics show that one in every five internet user is an online gamer. This presents a huge opportunity for Facebook to tap into its customer base. So far FB generates about 20 percent of its revenue from gaming sites' advertisement and fees. Recently FB downgraded its relationship with Zynga. FB has acquired key talents from Zynga and an entrance in the social gaming market has the potential of adding an additional \$2-\$5B to Facebook's market value. Facebook's introduction to Gifts is the first step to go after Ecommerce, which Amazon.com commands the lead in. In 2012 Amazon generated \$61 billion in revenues. In the near future FB is going after only 1 percent of that revenue which represents a \$0. 6B. Following the evaluation of FB's potential success in

diversifying in the above five main areas in its operations, we concluded that Facebook will be able generate between 12 percent-30 percent growths rate over the next five years. Given it is 5: 1 current book to market value we firmly confident that Facebook will be at \$70-\$100 per share in 5 years.

Industry Overview

Worldwide social networking market size is more than one billion. The social networking giant is the leading reason for this expansion, especially Facebook's rapid growth in Brazil, India and Indonesia. " In 2012, 837. 3 million people worldwide used Facebook, a 27. 4 percent increase from 2011. Among the top five social networking markets in 2012, three were dominated by Facebook: the US, India and Brazil according to" emarketer". Source" <http://www.emarketer.com/>" There are several different social media sites that are positioning themselves as competitors to Facebook. Of course, Facebook itself is so huge and popular that it is very unlikely any new site is going to be able to knock them off their perch, at least not any time soon. In the business context, sustainability is about taking a holistic approach to the long-term viability of an enterprise in the midst of social, environmental and economic forces. We believe that innovation in technology will play vital role to achieve the company's goal and only that company will stay in the market that will bring new product in the market. The mobile market is one such example, where growth is relentless and tremendous untapped potential still exists for businesses of all kinds. Mobile technology has introduced a new dimension into advertising and marketing for businesses and social media worldwide. Potential customers now see business advertisements on mobile phones thru a wide variety of mobile

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marketing technologies including: SMS (text) messaging, mobile websites, mobile applications, banner ads, QR codes, IVR messaging and more.

Industry Leaders

LinkedIn

One of competitor of Facebook is LinkedIn, although this is really mostly geared to businesses and professionals. However, it is a great site for building professional contacts and networks. It is also a great way for people to gain new business in the creative fields like writing and design. LinkedIn is a more business centric networking site. You can build your professional network here and stay in touch and up to date with others in your profession. LinkedIn is the largest online social network that mainly focuses on business with more than 200 million people registered with the site as LinkedIn mention on her site. LinkedIn has a remarkable growth from last two years. " In 2012, LinkedIn revenue increased 86 percent to \$972. 3 million from \$522. 2 million and its Net income for the fourth quarter was \$11. 5 million, compared to net income of \$6. 9 million for the fourth quarter of 2011." If we see the earning per share (EPS) that tells us that LinkedIn has better Earning per Share than Facebook which is another indicator that LinkedIn has strong financial position as compare to other competitors but if we see the Price-Earnings ratio Facebook has the higher ratio as compare to competitors which shows the earning will increase and company will pay more per share of stock. These revenue figures are impressive, and the firm has continued to see strong revenue growth after going public, consistently beating analyst estimates. We believe that the main reason for LinkedIn to show better revenue growth than Facebook is that it does not rely as heavily on online

advertisements as Facebook does. Actually LinkedIn has a stronger business model than Facebook; its offerings include subscriptions, job postings, and advertisements. These three revenue streams contribute to the growth of the company. LinkedIn all focus is on the professional side and Facebook is diversified company looking more markets and bringing new ideas. That is reason we believe that both sites are targeting two very different profiles of people, i. e. LinkedIn for your business persona and Facebook for everything else.

FriendFinder Networks Inc.

FriendFinder Networks Inc. is a leading internet-based social networking and technology company operating several of the most heavily-trafficked websites in the world. FriendFinder, Inc. social networking site is available in nine different languages. This competitor offer almost same services as the Facebook, Inc. does, like online personals, live and recorded video, online chat rooms, instant messaging, photo and video sharing, blogs, message boards, email and premium content websites but its growth is not fast as compare to Facebook Inc. FriendFinder Networks also produces and distributes original pictorial and video content, licenses the globally recognized Penthouse brand to a variety of consumer product companies and entertainment venues, and publishes branded men's lifestyle magazines. Most of the revenue comes from advertising and Penthouse brand. A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. It's usually more useful to compare the P/E ratios of one company to other companies in

the same industry. FriendFinder's P/E is lower than Facebook which shows that investors are not expecting higher earnings growth in the future.

Twitter

Twitter is an interesting player in the social media space. Characterized by its short messages, it is almost completely different in its format and tone. There are a lot more marketers using Twitter to send out links to sites and information directly. Twitter is one of the most popular social networking sites online with over 300 million users. Although this site is not as friend friendly as Facebook, one of the reasons that this site has grown popular is because of its celebrity following. Twitter Ad Revenues to grow 86 percent to \$259 Million in 2012 as compare to 2011. Twitter's 90 percent revenue comes from US market" Twitter. com". Twitter does have an advantage over its competitors, however, in terms of advertising performance," but in worldwide user Facebook has more than one billion users that are big difference between Facebook, Inc. and Twitter . Twitter is a way for fans to keep up with their favorite famous personalities and find out what they're doing and maybe even see if they have any words of wisdom to share. There is another overview in table to show where Facebook competitors stand.

Direct Competitor Comparison

FBLNKDFNPVT1IndustryMarket Cap: 67. 46B17. 55B22. 39MN/A221.

14MEmployees: 4, 6193000687N/A305. 00Qtrly Rev Growth (yoy): 0. 400.

81-0. 06N/A0. 18Revenue (ttm): 5. 09B972. 31M321. 52MN/A139. 72MGross

Margin (ttm): 0. 730. 870. 64N/A0. 59EBITDA (ttm): 1. 19B130. 93M69.

29MN/A14. 27MOperating Margin (ttm): 0. 110. 060. 16N/A0. 05Net Income

(ttm): 32. 00M21. 61M-36. 38MN/AN/AEPS (ttm): 0. 020. 19-1. 54N/A0. 03P/E
(ttm): 1, 888. 00856. 11N/AN/A26. 58PEG (5 yr expected): 1. 712.
00N/AN/A1. 24P/S (ttm): 13. 3417. 910. 07N/A2. 75FB = Facebook, Inc.
LNKD= LinkedIn Inc. FFN= FriendFinder, Inc. Pvt1 = Twitter, Inc. (privately
held)Industry = Internet Information Providers

Corporate Overview

Facebook is a social networking service launched in February 2004, owned and operated by Facebook, Inc. Facebook has over one billion active users, more than half of them using Facebook on a mobile device " according to Facebook, Inc." Facebook's mission is to make the world more open and connected. People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them. Facebook's corporate offices are located in Menlo Park, California. They have a presence both domestically and internationally. In the United States, Facebook has 11 offices based in major cities like New York, Los Angeles, and Washington D. C. They occupy 23 cities internationally like Dubai, Milan, and Paris. (Facebook Info Page, 2013)

History

Facebook was founded by Mark Zuckerberg with his college roommates and fellow Harvard University students Eduardo Saverin, Andrew McCollum, Dustin Moskovitz and Chris Hughes on October 28, 2003, while attending Harvard as a sophomore. In the beginning the site was comparable to Hot or Not, and " used photos compiled from the online Facebook of nine houses, placing two next to each other at a time and asking users to choose the

'hotter' person". Mark Zuckerberg joined by two other fellows who help him to grow the site to the next level in 2004. After few months later Peter Thiel co-founder of the Paypal was the first person who invested in Facebook. The Company dropped its name after purchasing the domain name Facebook.com in 2005 for \$200, 000." Source: businessinsider.com"

Merger and Acquisitions

Facebook has acquired more than twenty companies and most of the companies are US based including Instagram. Facebook CEO Mark Zuckerberg has stated that " We have not once bought a company for the company. We buy companies to get excellent people. In order to have a really entrepreneurial culture one of the key things is to make sure we're recruiting the best people. One of the ways to do this is to focus on acquiring great companies with great founders. The value of each acquisition is listed in US dollars. For list, see Appendix B." Source: http://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Facebook"

Financial History

Facebook was initially incorporated as a Florida LLC. In first few months after its launch in February 2004, the costs for the website operations for theFacebook.com were paid for by Mark Zuckerberg and Eduardo Saverin, who had both taken equity stakes in the company. Peter Thiel co-founder of Paypal made a \$500, 000 angel investment in the social network Facebook and joined Facebook's board. This was the first outside investment in Facebook. In April 2005, another investment came from Accel Partners who agreed to make a \$12. 7 million venture capital investment in a deal that

valued Facebook at about \$98 million post-valuation. In April 2006, Facebook closed its Series C funding round. This included \$27.5 million from a number of venture capitalists, including Greylock Partners and Meritech Capital, plus additional investments from Peter Thiel and Accel Partners. The valuation for this round was about \$500 million. In April 2006, Facebook closed its Series C funding round. This included \$27.5 million from a number of venture capitalists, including Greylock Partners and Meritech Capital, plus additional investments from Peter Thiel and Accel Partners. The valuation for this round was about \$500 million. On October 24, 2007, Microsoft announced to buy shares of Facebook for \$240 million, giving Facebook a total implied value of around \$15 billion. But all those shares have special rights, such as "liquidation preferences" that meant Microsoft would get paid before common stockholders if the company were sold. Microsoft's purchase also included the right to place international ads on Facebook. In November 2007, Hong Kong billionaire Li Ka-Shing invested \$60 million in Facebook. In early 2012, Facebook disclosed that its profits had jumped 65 percent to \$1 billion in the previous year when its revenue, which is mainly from advertising, had jumped almost 90 percent to \$3.71 billion. Facebook also reported that 56 percent of its advertising revenue comes from the U. S. alone, and that 12 percent of its revenue comes from Zynga, the social network game development company. Payments and other fees were \$557 million up from \$106 million the previous year.

Factors Affecting Growth and Profitability of Facebook.

Facebook has lack of mobile monetization and the fact that it doesn't own a mobile platform; government censorship and privacy scrutiny; inability to

maintain its growth rate; and competition from Twitter, Google+, FriendFinder and LinkedIn. Facebook's biggest challenge could be her financial performance and also its retaining and engaging active users. Some specific threats to its growth and engagement include competing products, the failure to introduce well-received new products, the inability to balance the user experience with the presence of ads, content relevancy, reduced perception of the service's usefulness, and concerns about sharing, safety and security.

Competition

Facebook facing significant competition in almost every aspect of business, including from companies such as LinkedIn, FriendFinder, Microsoft and Twitter, which offer a variety of Internet products, services, content, and online advertising offerings, as well as from mobile companies and smaller Internet companies that offer products and services that may compete with specific Facebook features. Facebook is also facing competition from traditional and online media businesses for advertising budgets.

Government Censorship and Privacy Regulation

It is possible that governments of one or more countries may seek to censor content available on Facebook in their country, restrict access to Facebook from their country entirely, or impose other restrictions that may affect the accessibility of Facebook in their country for an extended period of time or indefinitely. For example, access to Facebook has been or is currently restricted in whole or in part in China, Iran, North Korea, and Syria. Due to the access restriction on the Facebook, Facebook will lose her users and

ultimately companies use Facebook for advertisement will no more advertise on Facebook. Facebook will lose revenue from advertisement and we also believe that there is another factor which could be Facebook user growth and engagement on mobile devices that Facebook does not have control; Facebook generate a substantial majority of revenue from advertising. The loss of advertisers, or reduction in spending by advertisers with Facebook, could seriously harm Facebook business.

Corporate Culture

It is an important aspect of any organization, regardless of how large or small, to have proper ethics. It is important to the success of a business that Management personnel should be taught that their ethical behavior determines the ethical behavior of the other employees in the company. We believe, if the owner of the business uses the utmost applications of business ethics, those that he employs will follow the same ethical behavior. In Facebook Inc., Management Personnel are expected that their employees will always act lawfully, honestly, ethically and in the best interest of the company. Facebook Management makes all his effort at every level of the company that employees must follow the company's business ethical code. Facebook, Inc. code of business conduct and ethics give the opportunity to employees to discuss any issues with the management that make come up regarding the code of ethics. This code applies to all Facebook personnel, including members of the board of directors (in connection with their work for Facebook), officers, and employees of Facebook, Inc. and its corporate affiliates, as well as contractors, consultants, and others working on

Facebook's behalf. This code is subject to change and may be amended, supplemented or superseded by one or more separate policies.

Code of Conduct

Facebook personnel are expected to always act lawfully, honestly, ethically, and in the best interests of the company. This code provides some guidelines for business conduct required of Facebook personnel. Persons who are unsure whether their conduct or the conduct of their coworkers complies with this code should contact their manager, another manager, Human Resources, or the Legal Department. This code applies to all Facebook personnel, including members of the board of directors (in connection with their work for Facebook), officers, and employees of Facebook, Inc. and its corporate affiliates, as well as contractors, consultants, and others working on Facebook's behalf. This code is subject to change and may be amended, supplemented or superseded by one or more separate policies.

Company Resolve Conflicts

Facebook, Inc. has conflict committee and if employees believe a conflict of interest exists; then they should notify the conflicts committee . A conflict of interest exists when your personal interests interfere with the best interests of the company (Facebook, Inc.). For example, a conflict of interest may occur when an employee or an employee's family member receives a personal benefit as a result of the employee's position with Facebook. A conflict of interest may also arise from your personal relationship with a customer, supplier, competitor, business partner, or other employee, if that relationship impairs your objective business judgment. The best rule for any

situation that appears to present a conflict of interest is to "abstain and disclose".

Marketing

Marketing is the way companies interact with consumers to create relationships that are beneficial to both the parties. Today, marketing is most visible through social media interactions and contests. Facebook enables advertisers to reach more than one billion people with advertisement that are relevant, engaging and have social context. External website (standard) ads. External Website or Standard Ads is Facebook's traditional ad option. These ads are usually found along the right-hand side of the page and are designed to drive traffic offsite. Facebook object (like) ads. Facebook Object, or Like Ads, are similar to Standard Ads, but are designed to drive traffic to a Facebook Page, App, or Event. These have the same features as Standard Ads, except that titles will be the name of the Page, App, or Event that is to be advertised. Page post ads. Page Post Ads are primarily used to promote Pages and drive engagement. With these ads, content added to the Facebook Page like photo, link, video, event, question, or text update can be converted into an ad. Sponsored stories. Sponsored stories are the most interactive of all the ads types. These ads have control over where they are placed like target mobile-only, desktop only, or just News Feeds. While other ad types limited to one-way communication, Sponsored Stories are more conversational and encourage participation. Promoted posts. Promoted Posts promote anything that can be created through the sharing tool: status updates, photos, videos, Offers, and questions. These are ideal for mobile impressions since the ads appear in News Feeds and not the right-hand

column. This can be purchased directly from the Pages Manager app which is available to pages with more than 400 Likes. Facebook (FB) Inc. successes in increasing its revenue through advertising depend on solely on mobile generating ads. Facebook is making a good progress in developing its mobile advertising operation. One of the greatest advantages for Facebook mobile advertising is the development of the iPhone business. (Nguyen, 2012) This is the greatest opportunity for Facebook to use the large iPhone screen to display the ad on the mobile. iPhone 5 screen is large and easy to browse for user. It is more efficient for advertising and allows the company to monetize mobile. Since Facebook is the largest user base, the company could grow significantly with the new technology. As Facebook become the largest social network in the world the company may win more users and more market share. This could increase Facebook's revenue significantly in the future. (Constine, 2013)

Sales

Facebook's sales strategy is focused on adding customer for its mobile advertisement and increasing penetration into existing customer base. Facebook is looking upon expanding its sales of mobile ads through various new apps and launching other promotional marketing tools. When we talk about consumers, we are trying to somehow relate the use of the product or services offered. Relating to the above statement, in the case of Facebook, the people who use/surf it seem to be more like customers. However, Facebook doesn't get any intrinsic or extrinsic value from people using it. What it gets in turn is the publicity that it wants to create. Finally, this publicity leads to the popularity of the site, which in turn, brings various

advertisements from outside companies. Now, there are people in the market who would want to involve with Facebook so that their companies get noticed too. It could be a Wal-Mart, Macy's, Kohl's or any other industry as such. Hence, these are the actual customers for Facebook. Since Facebook is more an online business, people that are behind the scenes are often neglected. Having said this, their contributions in building a strong social media can never be undermined. In fact, these people are more actively involved to help the company retain its customer base by creating various marketing tools such as sponsored advertisements and networking. The technical support team is hence an integral part of the system as they help in both the promotion of the company and the involvement of people through creation of such marketing materials.

Organization and Corporate Issues

Employees

As of December 31, 2012, Facebook stated they have 4, 619 employees on staff with the company. According to Facebook's page, Senior Management consists of the Chief Executive Officer, Chief Operating Officer, and the Chief Financial Officer. At the age of 28, Mark Zuckerberg holds the position of Chief Executive Officer and Chairman of Facebook. He found the company in 2004 with fellow college mates. He majored in Computer Science and Psychology at Harvard University but left to create the company. He is responsible for product strategy and providing direction for the company. He also leads the design of Facebook's service and the development of the technology and infrastructure. At 43 years old, Sheryl Sandberg is the company's Chief Operating Officer. She has attended Harvard University

majoring in Economics and graduated Summa Cum Laude in her class. She also received her Masters of Business Administration from Harvard Business School. Her responsibility in the company is to oversee operations including sales, marketing, business development, legal, human resources, public policy and communications. Prior to joining Facebook, Sheryl worked at Google as the Vice President of Global and Online Sales where she was involved with launching Google.org, which is the company's philanthropic website. She also served as chief of staff for the United States Department of Treasury under President Bill Clinton's Administration. David Ebersman is currently 42 years old is Facebook's Chief Financial Officer. He leads the company's finance, facilities, and information technology departments. He received his Bachelors of Arts in Economics and International Relations from Brown University. Before Facebook, David was the Chief Financial Officer and Executive Vice President at Genentech. He was with Genentech for 15 years and started as a Business Development Analyst. He also worked as a Research Analyst at Oppenheimer.

Performance Monitoring and Bonus Payment Systems

Facebook, Inc. has the compensation Committee which is consist of two or more members of the Board, with the exact number determined from time to time by the Board. The committee's principal responsibility to evaluate, recommend, approve and review executive officer compensation arrangements, plans, policies and programs maintained by the Company, and to administer the Company's equity based compensation plans and the Company's annual bonus plan. The Committee may also make recommendations to the Board regarding its remaining responsibilities

relating to executive compensation. The Committee will annually review the Company's overall compensation strategy, including base salary, incentive compensation and equity based grants, to assure that it promotes stockholder interests and supports the Company's strategic and tactical objectives, and that it provides for appropriate rewards and incentives for the Company's management and employees, taking into account whether such rewards and incentives encourage undue or inappropriate risk taking by such personnel. Committee will also approve equity awards to officers, employees or other service providers to the Company. (Facebook Info Page, 2013)

Lawsuits

In the Company's financials (See Appendix C), the team discovered that there have been different legal proceedings that are still active. In the case of Paul Ceglia v. Facebook and Mark Zuckerberg, the company filed a motion to have the case dismissed due to Mr. Ceglia's delay in providing the items requested for in discovery. In May of 2012, the company received multiple suits against them alleging that Facebook has violated the securities laws in connection with their Initial Public Offering (IPO), which the company believes these, are without merit. Due to the inquiries surrounding the IPO, the government has requested information, which the company is cooperating to provide that information. There are two cases that were referenced in the financials that take place in 2013. They are Summit 6 LLC v. Research in Motion Corporation et al. and Timelines, Inc. v. Facebook, Inc. These two cases are regarding trademark and patent infringement. The company believes that these claims from these two cases are without merit.

Capital Structure

Assets

The team reviewed the balance sheet that was submitted to the Securities Exchange Commission. (Refer to Appendix C) There was an increase in assets from 2011. The huge increase was from the company's marketable securities which consist of United States (U. S.) government and U. S. government securities. The maturity of these securities is ninety days or less. The company also recognized goodwill on December 31, 2012. This was due to the acquisition of some patents, technology, and tradenames. Facebook had acquired computer software and office equipment through capital lease agreements. They also have started construction on data centers in Oregon, North Carolina, and Sweden.

Liabilities

Long-term debt. As of December 31, 2012 Facebook Inc. has a long-term debt related to the drawdown of term loan of 1.5 billion. This includes estimated future interest payments using a fixed rate of 1.46 percent, which represented the effective interest rate after entering into an interest rate swap agreement. (Facebook's SEC, 2013) The Company borrowed this money to pay liability in connection with the IPO and to settle tax withholding payment. The amount of the debt compare to the company assets, it is not significant.

Research and Development

Most of the expenses for Facebook's Research and Development consist of salaries, benefits, and share-based compensation for employees in the

engineering and technical teams that are responsible for building and creating new products and improving products they already have. In 2013, the company launched their Graph Search, which allows users to find people, places, photos, and other content that has been shared on Facebook. This program is still in the beta stage. Mark Zuckerberg stated on their fourth quarter earnings call that the company will focus on creating new mobile first experiences. They will do this by working on the Graph Search as well as improving their mobile experience in order to create deeper connections and engagements. In 2012, FB stated in their financials that they had acquired \$633 million in patents and intellectual property rights. This included an agreement with Microsoft that assigned the company to acquire 615 United States patents and patent applications and 170 foreign patents and patent applications. These patents they acquired have a useful life range between three and seventeen years from the date of acquisition. The best-case scenario for revenue streams resulting from current research and development projects is for the project to succeed and become widely used within the community to generate more revenue. The worst-case scenario is for the project to not take with their user audience and create no additional revenue stream.

Commitment

Facebook, Inc. has entered into various capital lease arrangement in order to acquire property and equipment for operation. Also the company purchased property and equipment using capital finance under sale -leaseback transaction. The agreements are for three years for other and 15 years for Building. The interest rates for the leases are from 1 percent to 13 percent.

The leases are secured by the leased building and equipment. The lease include non- cancelable operating lease for offices, equipment, data center and land. The company is committed to pay the operating lease expenses as agreed upon. As of December 31, 2012 Facebook Inc. has 749 million non-cancelable contractual commitments. The leases will expire between 2012 and 2027. The operating lease expense is \$196 million as of December 31, 2012 and \$178 million for 2011. (Facebook's SEC, 2013)

Contingencies

Lawsuit had been filed against Facebook Inc. by Yahoo on March 12, 2012, for patents related to advertising. The case was dismissed by the federal court of United States on July 10, 2012, with no payment obligation. There was allege violation of securities laws in connection with Facebook IPO and the case is still under investigation. Management considers the likelihood of the outcome to be remote. (Facebook's SEC, 2013) There were several lawsuits against Facebook In. However, the outcomes of these allegations are not certain and management thinks it is remote. As of December 31, 2012 there was no liability recorded and no payment made because of a lawsuit.

Credit Facility

In February 2012, the company entered into an agreement for unsecured 5 years revolving credit facility which allow the company to borrow up to \$5, 000 billion and interest payable set at London interbank offered rate (LIBOR) plus 1. 0%. The company is obligated to pay a commitment fee of 0. 10%. As of December 31, 2012 no amount was drawn. The company also entered into

revolving credit facility, which allows the company to borrow \$3, 000 billion. The Company is obligated to pay commitment fee of 0. 10% per annum on the daily undrawn balance. In October 2012, the credit facility has been renewed for 3 year unsecured term loan which allow borrowing up to \$1, 500 million. As of December 31, 2012 1. 5 billion were drawn under the bridge facility agreement. (Facebook's SEC, 2013) Since Facebook Inc. has a strong financial position, the company has the ability to borrow and pay its debt. The company performance and liquidity are in good position.

Foreign Currency Exchange Rate Risk

As of December 31, 2012 Facebook Inc. has not entered into derivatives or other financial instrument in an attempt to hedge foreign currency risk. The company recognized currency loss \$9 million and 29 million in 2012 and 2011 respectively. The company has a plan to hedge foreign currency risk in the (Facebook's SEC, 2013) future. Since Facebook is a global company operating worldwide foreign exchange risk could be significant. Hedging foreign currency exchange risk could save the company form a major currency loss.

Voting Right

The CEO, the founder of Facebook exercise the majority of voting power of outstanding capital stock as of December, 2012 and has the ability to control the outcome of matters including election of director, any merger and sell of substantial assets. Control could be discouraged a potential investor from acquiring class A common stock due to limited voting power. The founder has the ability to control management and major strategic investment. 37. 7

percent of the outstanding share of Facebook' s are owned by institutional Investor. (MSN, 2013) (Facebook's SEC, 2013)

Significant Accounting Policies

The financial statements are prepared in accordance with U. S. general accepted accounting principles (GAAP). The preparation of financial statement requires estimate and assumption that affect the reported amount of assets, liability, revenue, cost and expenses. The estimate and assumptions are based on historical experience. Estimates are associated with revenue recognition for payment, other fees, income tax and share based compensation. (Facebook's SEC, 2013)

Revenue Recognition

Facebook generate substantially most of their revenue from advertising and payment processing fees. They recognize revenue when persuasive evidence of an arrangement exist, when delivery to customer occurred, when price is fixed or it is determinable and when there is reasonable assurance for collectability of the related receivable. (Facebook's SEC, 2013)

Risk Factor Related to the Industry

If Facebook, Inc. fail to add new users or are unable to keep existing users, this could decrease the level of user engagement with Facebook. And will reduce advertising revenue and the result will significantly harmed the company financial result. The majority of Facebook revenue comes from advertising, the loss of advertiser or reduction in spending by the advertiser with Facebook could seriously harm the company financial result. The use of mobile product as a substitute for personal computer may negatively affect

the revenue and financial result of the company. Facebook user engagement on mobile device will depend on mobile operation systems. Facebook has no control for any outcome. Due to this, any negative outcome could harm the company revenue and financial result. Any action against the company by government to restrict access to Facebook could harm the business and will result financial loss. New product or change to existing product could fail to retain and attract user. This could harm the company and result financial loss. Since Facebook business is highly competitive, competition could harm the company business. (Facebook's SEC, 2013) See Appendix C for data. Facebook Inc. as the world wide social media generates almost fifty percent of its revenue outside of the United States. As December 2012 the company revenue from United States is 2, 578 million and 2, 511 million the rest of the world.

Revenue and Expense Analysis for 2012, 2011 and 2010

Since Facebook, Inc. is growing aggressively, as its revenue increases expenses are also increasing dramatically. The high spending is due to research and development and marketing and sale. The company is spending more to develop and expand the business. This shows that the company is promising for future investment. As the company expand and develop to generate more revenue for higher return. See Appendix C for data. In 2012, Facebook, Inc. spent 27 percent of its revenue for research and development and 18 percent for marketing and sale. These high spending indicate that the company is looking for aggressive growth. Net income for 2012 has been very low due to high spending on research and development. See Appendix C for data.

Financial Analysis

In this section we will review FB financial statements and calculate key financial ratio to assess the financial condition of the company to enable the board of directors to reach a decision regarding adding the company to our firm growth fund. I will discuss the relative strength and weaknesses as highlighted by the different ratios calculated, and will also compare FB ratios to some of the firm key competitor to get a better insight of the firm performance. We will also highlight the firm strength, weaknesses, opportunities and threats that will shape the future of FB. At the close of the section I will include our recommendation to the board.

Ratio Analysis

Assets utilization ratios. " These ratios look at how well a company turns its assets into revenue as well as how efficiently a company converts its sales into cash. Basically, these ratios look at how efficiently and effectively a company is using its resources to generate sales and increase shareholder value. In general, the better these ratios are, the better it is for shareholders". (Investopedia, 2013)We calculated different ratio in the asset utilization to assess FB ability to generate revenue from the use of its assets. (See Appendix A). We will discuss here three of the asset utilization ratios that we felt it is most important to the board to make its decision highlighted in chart below. Sales per person. Between 2010 and 2012 FB sales per employee has increased from \$790, 000 to \$1. 13M, in the same period FB increased its work force by more than 2, 000 employees from 2, 500 employees in 2010 to 4. 500 in 2012. Facebook is expected to increase its work force by 20 percent in 2013 to keep in line to the expected revenue

growth of around 40 percent. Sales to equity ratio. FB sales to equity ratio declined from 1.28 in 2010 to 0.87 and 0.43 for 2011 and 2012 respectively. The ratio decline seems to be high at the first glance, but it is important to note that sales in the same period grew by 88 percent in 2011 and 37 percent in 2012 taking net sales from \$1.9B in 2010 to \$5.1 in 2012. At the same period Shareholders equity increased from \$1.5B in 2010 to \$11.8B in 2012. The unbalanced change in both sales and equity over the period make the decline in the sales to equity ratio insignificant and unimportant in the analysis. Sales to fixed assets ratio. FB sales to fixed assets ratio trended down from 3.44 in 2010 to 2.5 and 2.13 in 2011 and 2012 respectively. Again the ratio is a misleading indicator if it is looked at without considering the significant increase in long term investment that FB had between the years 2010 and 2012. FB fixed assets increased by 500 percent between 2010 and 2012, at the same time sales increased by 158 percent. The increase in fixed assets usually will slow down after the initial period of expansion and sales will accelerate. Operating performance ratios. In general the operating performance set of ratios look at how efficient the firm runs its operation and how each dollar of sales translates into net income. An increase in sales could be a positive sign but if cost is increasing on a higher rate that could be alarming. We calculated different ratios in the operating performance to evaluate FB ability to convert revenue into profit. (See Appendix A for the full set of operating performance ratios). We will discuss here two ratios that we felt it is most important to the board to make its decision highlighted in the chart below. Gross Profit Percentage Ratio. FB gross profit percentage continues to remain flat at around 75

percent even with more than doubling it is sales between the years 2010-2012. This is considered as an important indicator for the company going forward. Net income Percentage. FB net income declined from around 9 percent in 2010 and 2011 to 1 percent in 2012. This decline is and was explainable as FB took a hit in 2012 to record a large share based compensation expenses for the IPO amounting to \$1.7B. Excluding this amount FB net income percentage would have been 33 percent. Liquidity ratios. According to Investopedia (2013), liquidity ratios are "A group of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations, Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts." As highlighted in the chart below we will discuss two of FB liquidity ratios. Current liability ratio. Facebook current liability ratio is on the decline since 2010 going down from 47 percent in 2010 to 31 percent in 2012. This indicates that FB has no need to rely on short term financing to run its operation. Current/Quick Ratios. Over the period covered 2010-2012 FB managed to increase its current/quick ratio by 100 percent. Relying on improved sales FB commands a strong liquidity position as its cash and short term investment increased by \$7B a 500 percent between 2010 and 2012.

Return on investment ratios.

Earnings per share ratio. EPS is one of the heavily used indicators by analysts to assess a firm's profitability. FB EPS declined by \$.27 between the years 2010 and 2012 as highlighted in the chart below. This decline as discussed earlier was a result of one-time charges in 2012 for IPO expenses. Excluding

this charge FB EPS would have been around \$0.75. Expectation for 2013 is that face nook will return to the pre IPO EPS of around \$.46.

Financial Ratios Summary

Assets Utilization Ratios: After review the three main indicators in the asset utilization ratios above we see no alarming signals that should make us or any other investor nervous. The increase in the sales per person is encouraging and the decline in both sales per fixed assets and sales per equity ratios are normal in a period where the company is investing heavily in initial setup and increasing its capital base significantly.

Operating Performance Ratios: To recap FB operates on a high operating margin and increase in sales will be translated into bottom-line in the coming years, most analysts expect net income percentage to move into double digits in the coming quarters, and we share such sentiment.

Liquidity Ratios: FB commands strong liquidity ratios that enable the company to take advantage of any future investment and to expand its business.

Return on Investment Ratios: In the post IPO year Facebook return on investment took a hit as a result of IPO related expense. This is a one-time charge and Facebook return on investment will bounce to the Pre IPO year in 2013 and is expected to accelerate in the coming year.

Industry Analysis

In this section we intend to look and see how some of Facebook financial ratios are compared to those of the industry, sector and the market. This comparison is as important if not more important than the trend analysis performed for Facebook year over year ratios. As shown in the chart below we will

discuss five major ratios used heavily by market analysts. (Other industry ratios are shown in Appendix A) (CNBC, 2013) Price earnings ratio. Industry, sector and market average PE ratios is around 23: 1 compared to 2, 855: 1 that of face book. At first glance at this ratio any person with little common sense would take his/her chances at the roulette table at any casino before considering investment in FB. As an analyst we should not take numbers at face value and we should not read the book by its cover, we need to dig deeper to understand why before we declare this as a deal breaker.

Excluding the 2012 onetime charge related to the IPO expense FB PE ratio would have been around 38: 1. This look much better and for a first year firm as public company with expected growth faster than any of its peers it is expected and normal. (Maurer, 2012) Price/book ratio. FB price/Book ratio 5. 7: 1 is close to the industry average with a stock price of 28. 5 as of Friday 2/8/2012. This is an important ratio to consider when evaluating FB future potential. FB is expected to add 20-30 percent to its equity book value in 2013. As a result it price to book value will be below it is peers and the market. If the expectation is to materialize FB price should reflect this increase and stock price should rise to around \$36-\$40 in 2013. Current ratio. Facebook current ratio is 3-4 times that of its peers and the market. Facebook cash on hand is around \$10B places the company in a unique and very strong position to take advantage of future investment opportunities. To put this in perspective Facebook can buy Groupon, Zynga, and Research in Motion combined without the need to go to the market for extra financing. Gross profit margin. As indicated by the chart above FB GPM much higher than that of the industry, this together with utilizing an expected higher

operating margin will place FB in a strong position to increase net income and maximize shareholders wealth.

SWOT Analysis

FB possesses a unique strength in market reach to over 1 billion users with a potential to increase this base worldwide. Its 2012 success in converting to a mobile company will give the firm the opportunity to sustain its forecasted growth rate. FB Financial strength in term of cash flows and low debt ratio give the firm the opportunity to take advantage of future investment opportunities that will help diversify its services and increase revenues. With all the current market reach and financial strength face book needs inject an experienced leadership to its current management team. Its failure to do so will have disastrous consequences as the company grows. As a young company FB has the opportunity to double its presence and increase traffic which in turns will generate extra revenue by improving search to compete with industry leaders like Google, introduce social gaming, and take advantage of its reach to capture some market share in Ecommerce. FB also can take advantage of its global presence to generate addition revenue from voice and video conferencing. FB as any other firm cannot ignore the changing taste and behaviors of its client base, the company have to continue evolving as the client evolves.

Conclusion and Recommendation

Facebook is a growing company with unlimited potential, the world is its backyard and it is expected that the company will double it value within 3-5 years. After an intensive research and analysis to FB financial position, its

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