

# **CASE STUDY: M&A ANALYSIS OF META'S ACQUISITION OF WHATSAPP**

# About Meta/Facebook

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As of 2014, Facebook's (not yet rebranded as Meta) main aims and goals revolve around connecting people, expanding its user base, and monetizing its platform through advertising and other digital services



Mission: Facebook's mission is to make the world more open and connected. The platform aims to help people share and express what matters to them, regardless of geographical barriers.



Expanding User Base: Facebook is continuously working to bring more people online, **Instagram**: Acquired in 2012, Instagram was a popular platform for sharing photos and videos, with a focus on visual content and a growing base of young users.

# About WhatsApp

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**Vision:** WhatsApp's vision in 2014 was to make communication fast, simple, and accessible for everyone, regardless of location or device.



**Mission:** To provide a reliable and easy-to-use messaging service without advertisements, focusing on user privacy and a seamless experience.

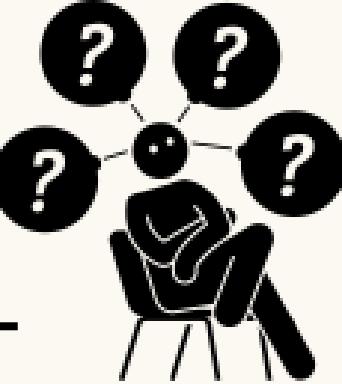


**User Base:** By 2014, WhatsApp had over 450 million active users, with the majority of its growth coming from international markets like India, Brazil, and parts of Africa and Europe.



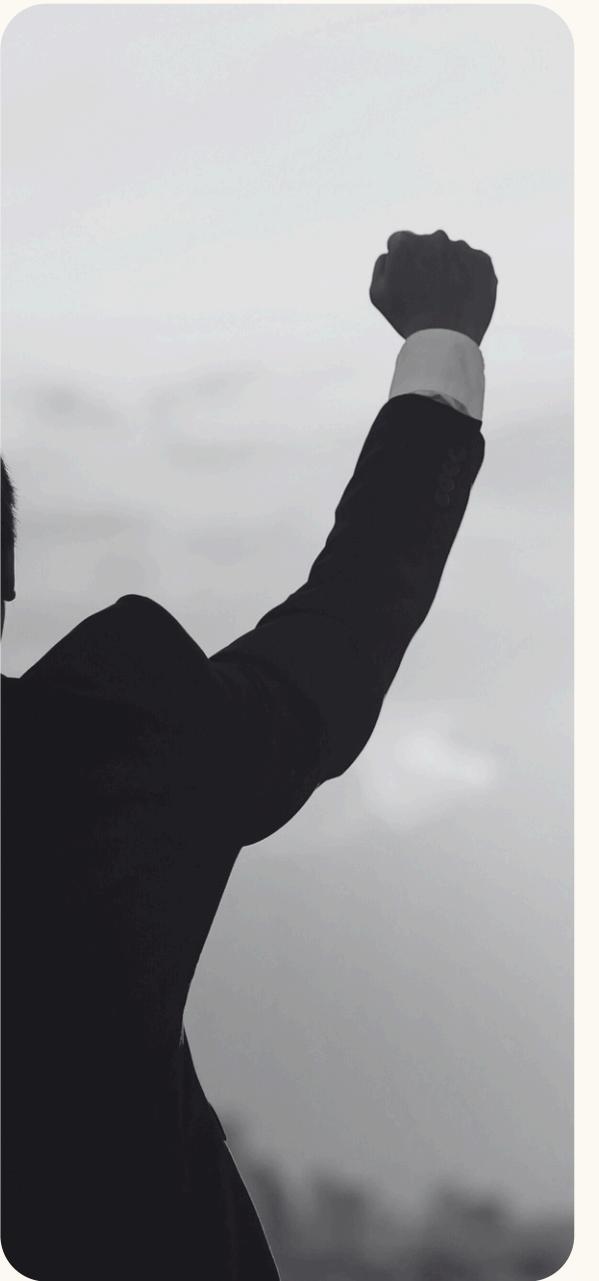
**Subscription Fee:** WhatsApp's primary revenue model in 2014 was a subscription fee of \$0.99 per year after the first year of free service. This model generated modest revenue relative to its massive user base.

# IS WHATSAPP A GOOD FIT TO META??



## WHY DOES IT FIT??

- WhatsApp had a vast and rapidly growing global user base, with over 450 million active users by 2014, particularly in emerging markets like India, Brazil, and parts of Africa and Europe. Facebook was already a global social network, but WhatsApp gave it a stronger foothold in regions where Facebook was not as dominant, particularly in mobile-first markets where messaging apps were more prevalent.
- By acquiring WhatsApp, Meta could tap into new user segments and maintain its leadership in global digital communication.
- Meta already has Messenger but, Messenger was tied to Facebook's social networking features, WhatsApp was a standalone.
- Meta's broader vision was to be the dominant player in global communication, and WhatsApp was an essential piece of that puzzle.



## CHALLANGES

- At the time of acquisition, WhatsApp had a modest subscription fee of \$0.99 per year after the first year of free service, generating only about \$20 million in revenue annually. This was a drop in the bucket compared to Facebook's advertising-driven revenue model. WhatsApp's founders were also staunchly against advertising, which posed a challenge for Meta, which relied heavily on ads for revenue.
- WhatsApp's commitment to privacy, particularly through end-to-end encryption, was at odds with Facebook's approach to data collection and targeted advertising. WhatsApp users expected a high level of privacy, and any perceived erosion of that could damage the platform's reputation and user trust.

# Strategic Fit

## CUSTOMER GAINS:

Meta already operated Facebook Messenger. However, Messenger was more popular in developed markets, particularly in the U.S. and Europe, and was deeply integrated into the Facebook ecosystem.

WhatsApp provided a standalone, independent messaging app that was incredibly popular in emerging markets such as India, Brazil, and parts of Africa. Its simplicity, low data usage, and availability on a wide range of devices made it a favored choice in regions with less reliable internet infrastructure.

## PRIVACY-FOCUSED COMMUNICATION:

Facebook's business model heavily relied on collecting user data to serve targeted ads. This led to growing concerns about privacy, and Facebook was increasingly scrutinized for its data practices.

WhatsApp was built on a foundation of privacy, with its founders placing a strong emphasis on end-to-end encryption and a no-advertising model. This provided Meta with a communication platform that offered users a different kind of experience—one that focused on privacy and secure communication.

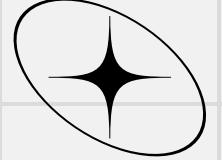
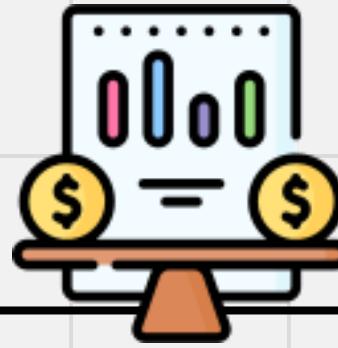
## EXPANDING MOBILE PRESENCE

WhatsApp was a mobile-native app, designed specifically for mobile communication. Its streamlined, low-bandwidth approach allowed it to thrive in markets where data was expensive or infrastructure was limited.

WhatsApp's mobile-first design aligned with Meta's push to dominate mobile communication. Reinforced Meta's leadership in mobile, allowing it to reach users across different demographics and regions.

# VALUATION OF WHATSAPP

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## User Base & Growth Metrics :

- WhatsApp had over 450 million active users by early 2014, growing at about 1 million new users per day.
- Users checked the app multiple times daily, indicating strong user engagement and retention.

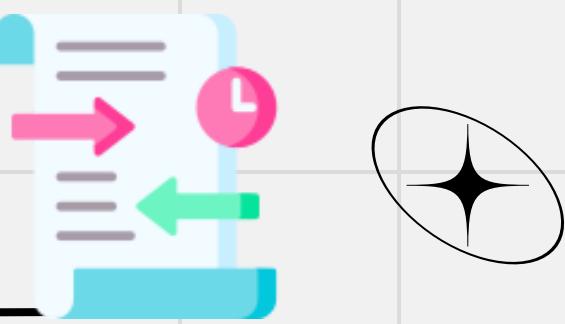
## Revenue and Monetization:

- WhatsApp charged \$0.99 per year after the first free year. In 2014, this generated approximately \$20 million in annual revenue.
- The potential to diversify revenue streams (e.g., business services, digital payments) significantly increased the valuation, even though current revenue was modest.

## Competitive Advantage:

- Acquiring WhatsApp prevented competitors from gaining access to its large user base and strong market position.

# PRECEDENT TRANSACTIONS ANALYSIS



## Comparable Transactions:

- Instagram: Acquired for \$1 billion. At the time of acquisition, Instagram had no revenue, so the valuation was driven by its user base (~30 million users at the time of acquisition).
- Skype: Acquired for \$8.5 billion. Skype had annual revenues of around \$860 million at the time of acquisition, implying a 9.9x revenue multiple
- YouTube: Acquired for \$1.65 billion. YouTube had an estimated revenue of \$15 million at the time, implying a very high revenue multiple due to its strategic value.

## Result:

- Precedent Transaction Analysis gives us a baseline valuation based on comparable deals, but it's crucial to factor in strategic considerations
- Valuation using precedent transactions for WhatsApp could range from \$300 million (YouTube's revenue multiple) to \$22.5 billion (Instagram's per-user multiple).

# ESTIMATION PROCESS

## REVENUE BASED VALUATION:

- Revenue Multiple: Using a conservative revenue multiple for high-growth tech companies, such as 15x, and applying it to WhatsApp's \$20 million revenue:
- **Estimated Valuation=15×\$20 million=\$300 million**
- Adjust for Growth and Strategic Value: Given WhatsApp's exceptional user growth, engagement, and strategic importance, the valuation should be higher than the straightforward revenue multiple. Factors like user base growth, future monetization potential, and market expansion significantly boost the valuation.

## USER-BASED VALUATION:

- Value per User: Estimate the value per user based on similar acquisitions. For example, if comparable messaging apps were valued at \$50 per user:
- **Estimated Valuation=450 million users×\$50 per user=\$22.5 billion**
- Adjust for Market Trends: Fine-tune the estimate based on market conditions and strategic fit, potentially leading to a valuation close to the \$19 billion range.

# DISCOUNTED CASH FLOW (DCF) ANALYSIS

## 1) Assumptions:

### a) Revenue and Growth

Initial Revenue (2014): \$20 million

Revenue Growth Rate: 60% annually for the next 5 years, then 20% for the subsequent 5 years

| Year | Revenue          | Growth Rate |
|------|------------------|-------------|
| 2014 | \$20 million     | -           |
| 2015 | \$32 million     | 60%         |
| 2016 | \$51.2 million   | 60%         |
| 2017 | \$81.92 million  | 60%         |
| 2018 | \$131.07 million | 60%         |
| 2019 | \$209.71 million | 60%         |
| 2020 | \$251.65 million | 20%         |
| 2021 | \$301.98 million | 20%         |
| 2022 | \$362.38 million | 20%         |
| 2023 | \$434.85 million | 20%         |
| 2024 | \$521.82 million | 20%         |

# DISCOUNTED CASH FLOW (DCF) ANALYSIS

## b) Profit Margins

Operating Margin: 40%

## c) Discount Rate

Discount Rate: 15%

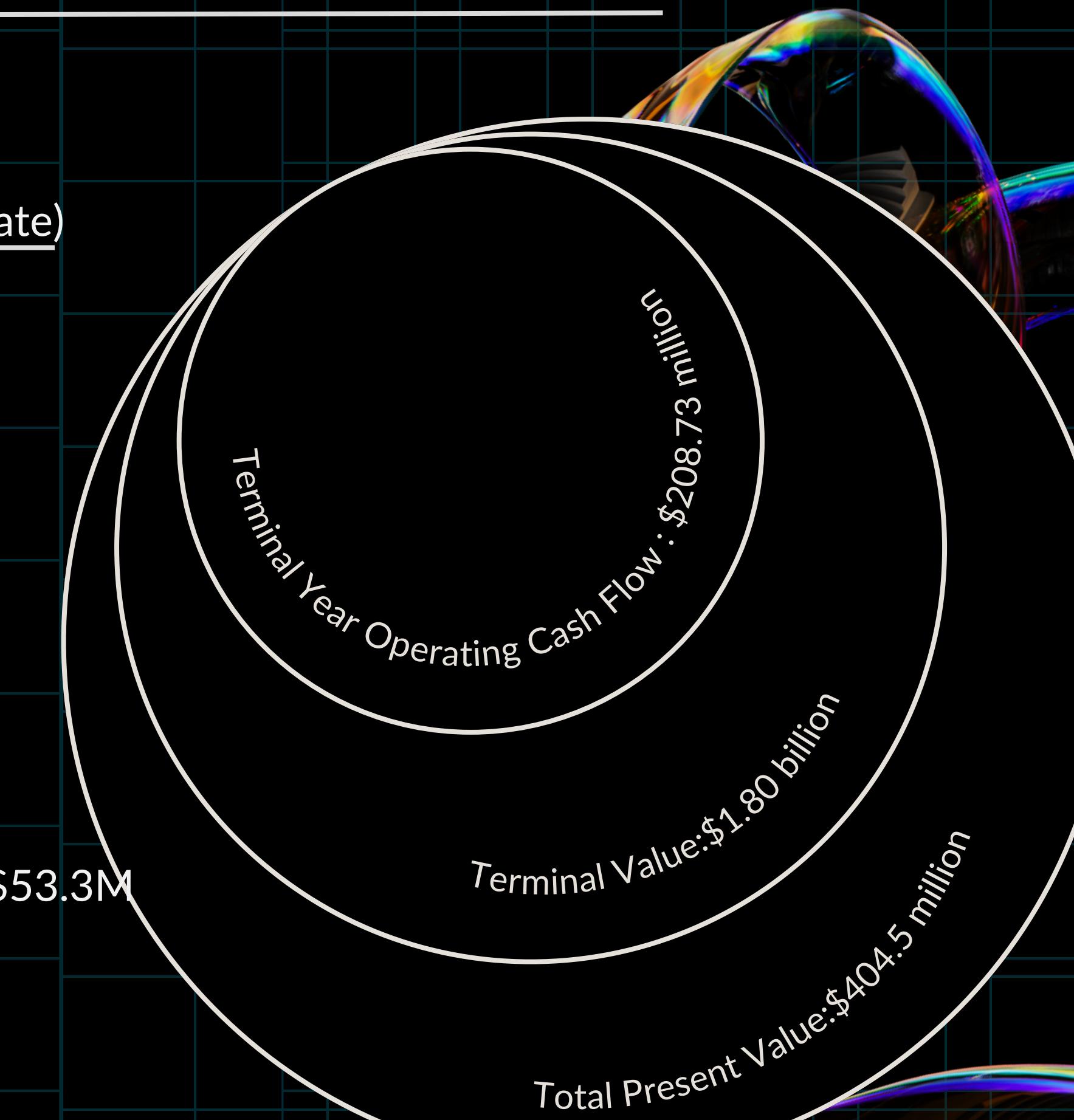
## d) Terminal Growth Rate

Terminal Growth Rate: 3%

| Year | Operating Cash Flow | Discount Factor | Present Value  |
|------|---------------------|-----------------|----------------|
| 2014 | \$8 million         | 1.0000          | \$8 million    |
| 2015 | \$12.8 million      | 0.8696          | \$11.1 million |
| 2016 | \$20.48 million     | 0.7561          | \$15.5 million |
| 2017 | \$32.77 million     | 0.6575          | \$21.5 million |
| 2018 | \$52.43 million     | 0.5718          | \$30.0 million |
| 2019 | \$83.88 million     | 0.4972          | \$41.7 million |
| 2020 | \$100.66 million    | 0.4323          | \$43.4 million |
| 2021 | \$120.79 million    | 0.3769          | \$45.5 million |
| 2022 | \$144.95 million    | 0.3298          | \$47.7 million |
| 2023 | \$173.94 million    | 0.2908          | \$50.6 million |
| 2024 | \$208.73 million    | 0.2556          | \$53.3 million |

# TERMINAL VALUE CALCULATION

- Terminal Year Operating Cash Flow (2024): \$208.73 million
- **Terminal Value (Using Gordon Growth Model):**
- $$\text{Terminal Value} = \frac{\text{Year 2024 Cash Flow} \times (1 + \text{Terminal Growth Rate})}{\text{Discount Rate} - \text{Terminal Growth Rate}}$$
- $$\begin{aligned}\text{Terminal Value} &= 208.73 \text{ million} \times (1 + 3\%) / 15\% - 3\% \\ &= 208.73 \text{ million} \times 1.03 / 12\% \\ &= 215.99 \text{ million} / 12\% \approx 1.80 \text{ billion}\end{aligned}$$
- **Discounted Terminal Value:**
- $$\begin{aligned}\text{PV Terminal Value} &= 1.80 \text{ billion} / (1 + 15\%)^{10} \\ &\approx 1.80 \text{ billion} / 4.45 \\ &\approx 404.5 \text{ million}\end{aligned}$$
- Total PV of Cash Flows: 
$$\begin{aligned}& \$8M + \$11.1M + \$15.5M + \$21.5M + \\& \$30.0M + \$41.7M + \$43.4M + \$45.5M + \$47.7M + \$50.6M + \$53.3M \\& = \$378.7 \text{ million}\end{aligned}$$
- Total PV (Cash Flows + Terminal Value):  
$$\text{Total PV} = 378.7 \text{ million} + 404.5 \text{ million} = 783.2 \text{ million}$$



# SYNERGY ANALYSIS

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## Revenue Synergies:

- Assumption: Expected revenue synergies of \$100 million over the next 5 years.
- Enhanced Ad Targeting: Improved ad targeting capabilities leveraging WhatsApp's user data and Meta's advertising infrastructure.
- Integration: Cross-promotional activities and new revenue streams from integrated services across Meta's platforms.

## 2. Cost Synergies

- Assumption: Estimated cost savings of \$50 million due to operational efficiencies.
  - Shared Infrastructure: Reductions in costs from integrating WhatsApp's technology with Meta's existing infrastructure.  
Reduced Redundancies: Savings from streamlining operations, such as customer support and administrative functions.
- Total Synergies = Calculation: \$100 million (Revenue Synergies) + \$50 million (Cost Synergies) = \$150 million

# PEERS COMPARISION

| Company  | Users        | Revenue                                   | Business Model                                  | Privacy Concerns      |
|----------|--------------|---|---|-----------------------|
| WhatsApp | 400+ million | \$20 million                              | Subscription-based, minimal ads                 | End-to-End Encryption |
| Line     | 500+ million | \$300 million                             | Freemium (in-app purchases, ads, virtual goods) | End-to-End Encryption |
| WeChat   | 600+ million | Integrated into Tencent's broader revenue | Free (ads, virtual goods, integrated services)  | Lack of Encryption    |
| Viber    | 300 million  | \$100 million                             | Freemium (in-app purchases, ads)                | End-to-End Encryption |

 WhatsApp's low revenue from subscriptions indicated untapped monetization potential. Meta could leverage its extensive advertising expertise to generate significant additional revenue through ads or premium features.

# EXPECTED ROI:

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- Initial Investment: Meta's investment in acquiring WhatsApp should be \$19 billion.
- Target ROI: Meta should aim for a 15% ROI over five years, implying a return of approximately \$2.8 billion annually from WhatsApp's operations and synergies.
- Numerical Target: To achieve this ROI, Meta would need WhatsApp to generate at least \$2.8 billion in annual net cash flow by the end of the five-year period.

## Risk Assessment:

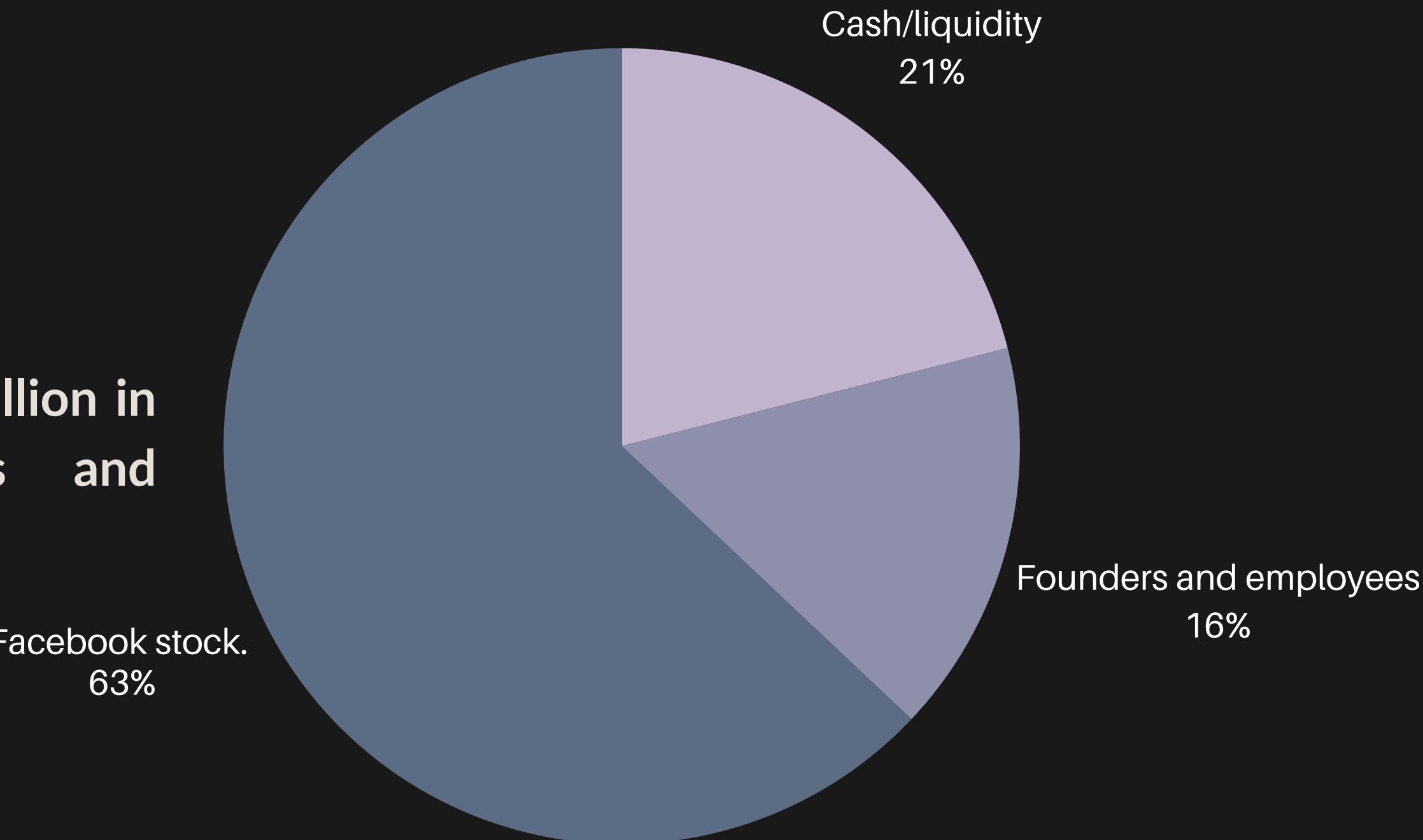
- Regulatory Risks: Assume potential fines or delays could cost up to 10% of the deal value
- Market Risks: Potential 5-10% variation in revenue based on user adoption rates.
- Integration Risks: Estimate a 5% increase in operating expenses during the integration phase

# ACQUISITION DEAL STRUCTURE

Total Price: \$19 billion

Deal Structure:

- Cash: \$4 billion
- Facebook Stock: \$12 billion
- Restricted Stock Units (RSUs): \$3 billion in RSUs for WhatsApp founders and employees, vesting over four years.



## **Integration Strategy:**

**Detailed Plan:** Develop an integration plan that outlines key milestones, such as integrating WhatsApp's user base into Meta's advertising ecosystem within 12 months and aligning product roadmaps within 18 months. **Budget:** Allocate a budget for integration activities, estimated at \$100 million, to cover IT upgrades, training, and transitional services.

## **Cultural Integration:**

**Cultural Assessment:** Identify potential cultural differences between Meta's fast-paced, growth-oriented culture and WhatsApp's more privacy-focused, user-centric approach. Implement cultural training programs and retention strategies with an estimated cost of \$20 million. **Unified Culture:** Set specific targets, such as achieving a 90% employee retention rate post-acquisition and fostering cross-functional teams to work on joint initiatives.

## **Technology Integration:**

**IT Systems Integration:** Plan for the integration of WhatsApp's backend infrastructure with Meta's systems, focusing on databases, user data, and messaging services. The integration could involve a phased approach over 24 months, with costs ranging from \$150 million to \$250 million.

**Data Migration:** Ensure seamless data migration with minimal downtime, targeting less than 0.5% user disruption, which could require investing in new cloud infrastructure and cybersecurity measures at a cost of \$50 million to \$100 million.

# DUE DILIGENCE

## Financial Due Diligence

- Good business model fitting meta.
- Reviewed operating costs.
- Performed a valuation analysis to determine whether the \$19 billion acquisition price was justified.

## Legal Due Diligence

- Evaluating WhatsApp's technology stack, including its messaging platform, encryption protocols, and server infrastructure.
- Analyzing the growth rate of WhatsApp's user base, user engagement metrics.
- Reviewing WhatsApp's data security protocols, including its end-to-end encryption

## Legal Due Diligence

- Reviewing contracts with employees, service providers, and partners to ensure no hidden liabilities or obligations.
- Verifying WhatsApp's ownership of its intellectual property.
- Assessing WhatsApp's compliance with international laws and regulations.

## Commercial Due Diligence

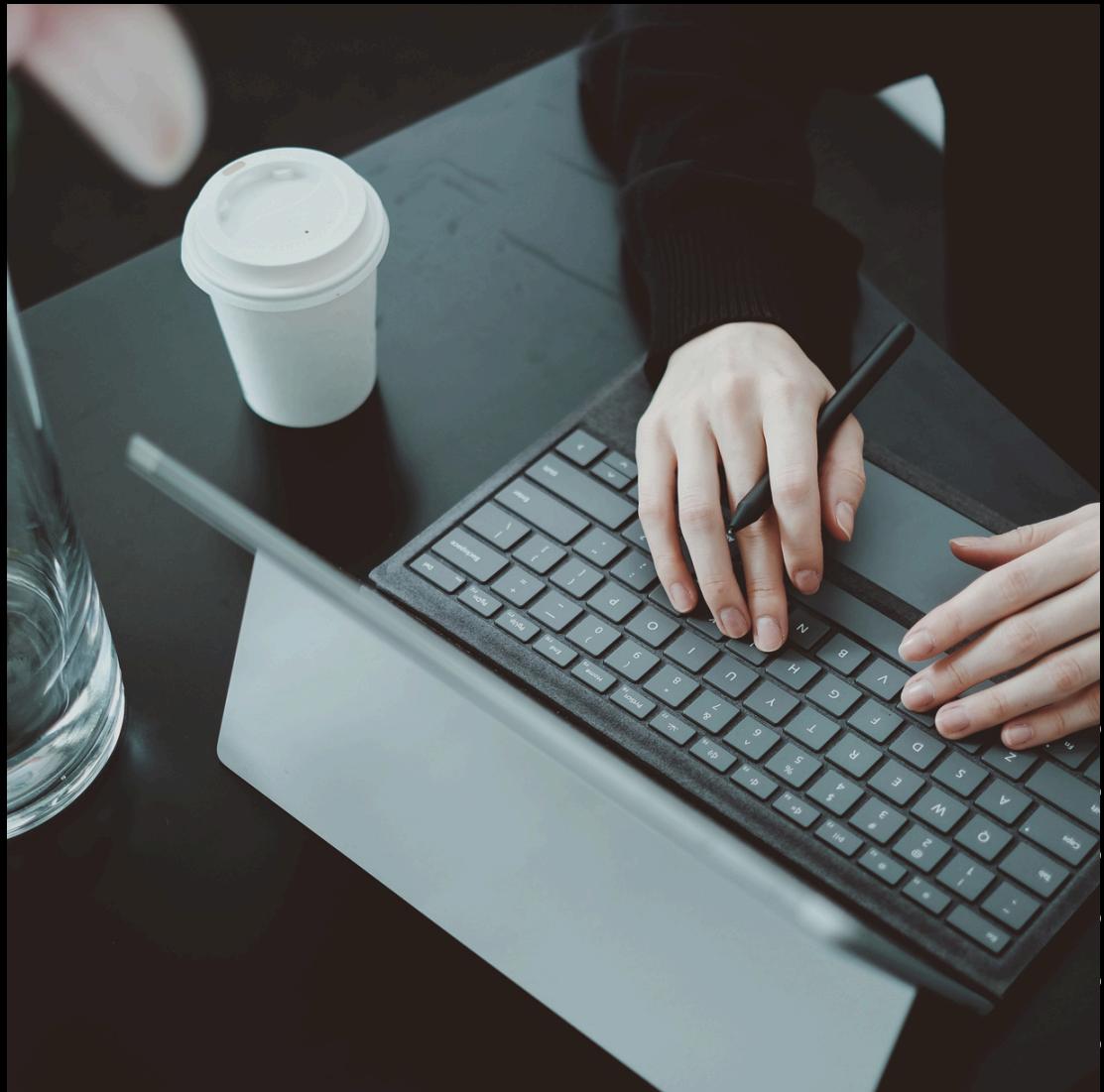
- Analyzing how WhatsApp fit into the broader competitive landscape of messaging apps, including rivals like WeChat, Line, and Viber.
- Assessing how WhatsApp's strong presence in international markets could help Meta expand

# CONCLUSION

The acquisition would be a significant investment in Meta's future, aligning with its broader mission to connect the world and enhance its ecosystem across platforms.

Meta must be prepared to address concerns and maintain strong encryption.

The \$19 billion valuation may seem high when viewed against WhatsApp's current revenue generation, but the deal is more about future potential than immediate returns. Meta could leverage WhatsApp to solidify its position in the mobile messaging space, fend off competition, and unlock long-term growth by tapping into new markets and driving user engagement.



**THANK YOU**