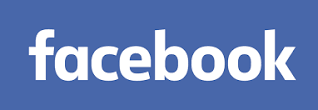
**Financial Analysis of Facebook**

**Stock ticker symbol, exchange where traded**  

Address of company headquarters: **1 Hacker Way, Menlo Park, CA 94025**

Company phone number: [**650- 853-1300**](https://www.google.com/search?q=facebook+headquarters&client=safari&rls=en&sxsrf=ALiCzsZDyRBH5GSelpUWWpp4Q7Id0ab6oA:1666575986184&ei=cu5VY_H4CtOwptQPnfuesAY&gs_ssp=eJzj4tZP1zcsyUovKImvNGC0UjWosDCwSEtKtjRLSbVISTYxtLQyqDAzsTS3TDUxtkhKM0k1TjT1Ek1LTE5Nys_PVshITUwpLE0sKkktKgYAV7kXyg&oq=facebook+headw&gs_lcp=&sclient=gws-wiz)

**Sreeja Reddy Singidi**

**DESCRIPTION:**

Facebook, the most widely used social media platform worldwide, enables users to interact with people by exchanging status updates and other exciting content. Any small business may benefit from learning to take advantage of Facebook's popularity. Access to helpful business tools is provided by creating a Facebook business page. Leverage Facebook's Insights feature to analyze every post that is created and see how effectively it resonates with the target group in real time. In addition, Facebook offers alternatives to advertising and promotions on your business pages that give you a competitive edge. Revenue from advertising is the main source of income for Facebook. Aside from its social networking platform, the corporation also sells other items, although these other revenue streams pale in comparison to advertising. The business gives its customers free access to its selection of social networking applications. Then, marketers are charged for the privilege of having their adverts displayed to people who fit a particular demographic or share certain traits. According to bids and performance, advertising competes for impressions in an auction-based pricing model. Only the clicks or impressions that the ad obtained will be paid to the company hosting the advertisement. The number of impressions represents how many times an advertisement is shown without being clicked.

**Company History:**

While a Harvard student, Facebook`s creator Mark Zuckerberg built the website in 2004 as a way for other college students to connect and socialize online. From there, the concept swiftly gained traction and eventually became global, with more than 160 million users in the United States. Facemash, an online tool allowing students to rate the beauty of their other students, was where it all started in 2003 at Harvard University (McFadden, 2020). It was terminated after two days due to the leading developer, Mark Zuckerberg, breaking university rules when he obtained resources for the service. TheFacebook.com, a social networking site, was introduced in February 2004 (Lynch, 2017). The program allowed Harvard students to submit pictures of themselves and personal information about their life, such as their club memberships and class schedules. It adopted the name "Facebook" and popularized the concept of "tagging" people in uploaded images (McFadden, 2020). Facebook allowed anybody older than 13 to join in 2006, expanding membership beyond students (McFadden, 2020).

* In September 2004 the website introduces the popular "wall", which enables users to upload content and receive remarks on their own page.
* Facebook reaches 1 million users in December 2004.
* July 2010 - There are more than 500 million active Facebook users.
* Launch of video calling in July 2011.
* In April 2012, Instagram's acquisition is officially confirmed.

**Organization Structure:**

According to the premise, the productivity of Facebook and Malaysian public and private sector employees is fully mediated by the organizational structure. This study explores how Facebook improves connectivity and information sharing, impacts employee productivity, build healthy organizational structures, creates value for customers, and connects employees and all stakeholders. It also shows how you can improve your connection with others.

Finally, a well-organized and structured organizational framework can improve work performance. In addition, due to the careful planning and implementation of online social media technologies like Facebook, companies can have a well-functioning organizational framework and improved employee performance. The business uses its organizational culture as a tool to boost business competitiveness and resilience. With the organizational culture of hackers in mind, Facebook Inc. creates its human resources. There are three divisions within the Facebook organizational structure.

There are three divisions within the Facebook organizational structure (Agoro, 2020):

* **Corporate Divisions:**

Corporate divisions and teams manage crucial business operations across the whole organizational structure for Facebook, which maintains a variety of corporate divisions and teams. According to the company's corporate vision and mission statement, this is based on the needs of the organization. The matrix organizational structure of Facebook, however, means that many teams based on corporate functions also work with the company's geographic and product divisions.

* **Geographic Divisions:**

The Facebook organizational structure also includes significant geographic divides. To accommodate for the variations in culture and social media attitudes around the globe, the organization uses four unique geographic divisions. Facebook can now address the different beliefs and habits of its audience. Advertisers in Latin America, for instance, frequently utilize Facebook in a different way than those in Europe and North America (Agoro, 2020). Other tasks, including managing accounting and human resources, are deliberately managed locally rather than worldwide. Many of Facebook's regional divisions collaborate with function-based teams by sharing managers and resources as a result of the company's matrix organizational structure.

Four geographic divisions are present in the Facebook organizational structure (Lombardo, 2018):

1. North America
2. Latin America
3. Europe, Middle East & Africa
4. Asia & South Pacific

* **Product Division:**

Even though the majority of facebook’s operations are concentrated on its main social networking service. This entails corporate and international teams working on product-specific operations, such as initiatives involving brands like WhatsApp.

**Main Products and Services:**

Users may buy, sell, and trade goods with individuals in their neighborhood using Facebook Marketplace, a digital marketplace. Think of it as a garage sale without the planning, advertising, and weekend costs. Using the App or an internet browser to access the platform, you can list nearly any item there.

The marketplace is used by individuals to buy and sell goods, while e-commerce companies and storefronts utilize it to market their present stock and draw more customers. Find out how much it will cost you and discover the advantages and disadvantages of utilizing Facebook Marketplace.

Selling ad space on its social media networks, such as Facebook and Instagram, is how Meta, previously known as Facebook, generates the majority of its revenue. An ad auction system underlies the fluctuating cost of advertising. Marketers establish an advertising budget, and Meta responds by estimating how several exposure the company can obtain for the allocated funds. In addition, Meta generates income by offering subscriptions to social media sites and virtual reality applications. While Meta social networking networks are free to use, some users may pay a charge to subscribe to special benefits. According to Meta, the overall income for 2021 was $117.929 billion, or about $323.09 million per day (Johnston, 2022).

**Geographic Operations:**

Another crucial component of Facebook's organizational structure is geographic division. The term "marketing" describes a company's strategies and tactics for luring clients and promoting the acquisition or sale of a good or service. Marketers can create plans for influencing the purchasing decisions of potential clients by getting their feedback. Advertising is one of the most well-known marketing strategies used to promote products to consumers. Advertising has been shown to have a major impact on sales. Additionally, studies show that Facebook marketing drives more sales than newspaper marketing.

**Recent Developments:**

The popular social media platform disabled the video capability from its profile pages in February. This change is a component of their plan to streamline the Facebook platform and put more of an emphasis on the content that users share rather than the method by which they share it. Facebook gave users the option to manually convert their account videos to images to make the transition seamless.

Meta is releasing a special collection of complimentary sounds for Carousel Commercials on Reels with the aim of making it simpler for marketers to develop Reels ads. Depending on the theme of the advertisement, advertisers can either choose a song manually or leave it up to the app to do so. After a Reel has finished playing, 4 to 10-second skippable video commercials will begin to play. The main Reel will resume after the advertisement and loop once more. With the advent of click-to-Messenger ads, businesses can now target the customers most likely to engage in a conversation with them and purchase from them.

**FINANCIAL OVERVIEW:**

1. **Sales and Income Record:**

**Facebook sales and net income 2017 to 2021 ($bn)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2017 | 2018 | 2019 | 2020 | 2021 |
| Sales | 40.65 | 55.83 | 70.69 | 85.96 | 117.92 |
| Percent change in  sales each year | 37% | 37% | 27% | 22% | 37% |
| Net Income | 15.9 | 22.10 | 18.4 | 29.1 | 39.3 |
| Percent change in  net income each year | 50% | 39% | -17% | 58% | 35% |

Annual sales growth was constant. The growth rate increased by 37% in the years 2017,2018 and 2021. With the exception of 2019, when it decreased by 17%, Facebook's operational profit has increased every year. It revealed an operational profit of $46.7 billion in 2021. The net income has increased on every year basis.

**GRAPH OF SALES & NET INCOME, FY 2017 2021:**

**b. Expense Distribution:**

**Major Expenses in 2021 (In millions of USD):**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | Cost of revenue | 22,649 | | Research & Development | 24655 | | Marketing and Sales | 14,043 | | General and administrative | 9,829 | | Total costs and expenses | 71,176 | |  |
| The pie chart describes the Major Expenses in the year 2021. The majority of expenses were contributed by Research & Development with 34%. The proportion of spending on the Cost of revenue is 33%. 19% of expenses were made by Marketing and Sales. The lowest expenditure was on General and administrative with 14%. |  |

1. **Assets Distribution (In millions of USD):**

|  |  |
| --- | --- |
|  | Year-end FY 2021 |
| Cash | 16,601 |
| Accounts receivable | 14,039 |
| Inventory | 57,809 |
| Fixed Assets | **88,449** |
| Other Assets | 2,751 |

2017 saw $8 billion in cash held by Meta (facebook). Their cash position was 19.9% higher than their sales. By 2021, Meta has $16.6 billion in cash on hand, or 14.1% of revenues, a growth over the following four years. This pattern shows that the corporation can maintain a sufficient cash position while holding less cash than annual sales.

1. **Capital Structure (In millions of USD):**

**Current liabilities**:

Accounts payable 1,052

Partners payable 1,127

Operating lease liabilities, current 1,127

Accrued expenses and other current liabilities 14,312

Deferred revenue and deposits of 561

Total current liabilities: 21,135

**Other liabilities**: 7,227

**Total stockholders' equity**: 124,879

**Equity investments under measurement alternative:**

Initial cost 6,480

Cumulative upward adjustments 311

Cumulative impairment/downward adjustments (50)

Carrying value 6,741

Equity investments under the equity method 34

Total equity investments: 6,775

This pie chart illustrates the Capital Structure (In millions of USD). Total Stockholder's equity holds the majority with 124,879. The current liabilities are distributed into some categories: Accounts payable, Partners payable, Operating lease liabilities, current, etc. and the total liabilities sum up to 21,135. Other liabilities take up 7227 in capital structure. The lowest expenditure was on Equity investments with 6775.

**RATIO ANALYSIS:**

1. LIQUIDITY:

FY 2020 FY 2021

Current Ratio:

Facebook 5.05 3.15

Amazon 1.05 1.13

Quick Ratio:

Facebook 4.89 3.2

Amazon 1.04 1.10

Understanding a company's financial situation is made easier by its liquidity ratio. Perceiving the financial situation in the short term is also helpful and a higher percentage indicates the company's stability. Amazon's current ratio increased from 1.05 in 2020 to 1.13 in 2021, while Facebook's ratio declined from 5.05 in 2020 to 3.15 in 2021. In the years 2020 and 2021, Facebook's quick ratio is higher than Amazon's.

Current Ratio = Current Assets/Current Liabilities

|  |  |  |
| --- | --- | --- |
| Facebook | FY- 2020 | FY- 2021 |
| Current Liabilities | 14,981 | 21,135 |
| Current Assets | 75,670 | 66,666 |

|  |  |  |
| --- | --- | --- |
| Amazon | FY- 2020 | FY- 2021 |
| Current Liabilities | 126385 | 142266 |
| Current Assets | 132733 | 161580 |

Quick Ratio: (Current Assets – Inventory)/Current Liabilities

OR

Quick Assets/ Current Liabilities

Quick Assets: Cash and Cash equivalents + Marketable Securities + Accounts Receivable

FACEBOOK:

2021

Cash & Cash Equivalents = 7308 + 16601

= 23,909

Accounts Receivable = 14039

Marketable Securities = 31397

= 23909+14039+31397/ 21135

= 3.2

2020

Cash & Cash Equivalents = 6488 + 11088

Accounts Receivable = 11335

Marketable Securities = 44378

= 6488+11088+11335+44378/14981

= 4.89

1. ASSET MANAGEMENT:

FY 2020 FY 2021

Total Asset Turnover:

Facebook 0.20 0.28

Amazon 0.07 0.09

Average Collection Period:

Facebook 0.75 0.89

Amazon 1.4 1.3

For companies of all sizes and in all sectors, asset management makes it simple to keep track of all of their assets, whether they are liquid or fixed. The location of the assets, their intended usage, and whether any alterations have been made will all be known to the staff. Employees are more likely to return assets on time and in the right location if you use asset management to keep them accountable when they use them. Compared to Amazon, Facebook has a higher asset turnover rate. But in a year, Amazon's revenue climbed by 0.02%. With regards to the Average Collection Period, Facebook has the shortest collection period in 2020, which is 0.75. It provided a 0.89 for the year 2021.

Total Asset Turnover: Net Sales/ Total Assets

FACEBOOK:

2021

Total Assets = 165987

Net Sales = 47284

Facebook Total Asset Turnover for 2021 is 0.28

2020

Total Assets = 159316

Net Sales = 33180

Facebook Total Asset Turnover for 2020 is 0.20

AMAZON:

2021

Total Assets = 420549

Net Sales = 38155

Amazon Total Asset Turnover for 2021 is 0.09

2020

Total Assets = 321195

Net Sales = 24178

Amazon Total Asset Turnover for 2020 is 0.07

Average Collection Period = 365\* (Avg Accounts Receivable/ Net Credit Sale)

OR

= 365 days/ Receivable Turnover Ratio

(3) DEBT MANAGEMENT:

FY 2020 FY 2021

Total Debt to Total Assets:

Facebook 0.032 0.033

Amazon 0.26 0.28

Times Interest Earned:

Facebook 89.04 65.18

Amazon 14.68 21.08

Debt management is a technique for giving firm finances more wiggle room so that they can be moved around easily without interfering with daily operations. Business interests are properly protected thanks to the temporary roadblocks that have been introduced in loan management. For the years 2020 and 2021, Facebook's total debt to total asset changes has a minor increase of 0.01%. Facebook's interest rates have dropped significantly by 23.86, which is a significant amount. With 89.04 in 2020, Facebook surpasses the previous high. The time’s interest earned ratio is calculated by dividing income before interest and income taxes by the interest expense.

Amazon:

2020

Income before interest - $24.178B

Interest expense -1.647 B

2021

Income before interest - $38.151B

Interest expense- 1.809 B

Facebook:

2021

Income before interest- 47,284

Interest expense- 531

Income before interest 2020- 33,180

Interest expense- 509

(4) PROFITABILITY:

FY 2020 FY 2021

Net profit Margin:

Facebook 33.9 33.38

Amazon 5.53 7.1

Return on Assets:

Facebook 0.18 0.23

Amazon 7.8% 9.0%

Return on Equity:

Facebook 31.52% 22.71%

Amazon 22.8% 24.8%

Modified Du Pont Equation, FY 2021:

Facebook Amazon

Net Profit Margin 33.38 7.1

Total Asset Turnover 0.28 0.09

Equity Multiplier 1.32 3.04

Net Profit Margin = (Net Income / Revenue) x 100%

Amazon's profit margin grew to a maximum of 7.1%. In 2021, we reached this high value. The lowest profit margin was -0.27% in 2014, just for the record.

Net Income of FACEBOOK INC during the year 2021 = $39.37 Billion.  
Revenue of FB during the year 2021 = $117.93 Billion.  
Net Profit Margin = (Net Income / Revenue) x 100% = 33.38%.

Return on assets:

*Return* *on* *Assets*=*net income / total assets*  
net income 2021= 39,370/

Total assets = 165,987

Net income 2020 = 29,146

Total assets = 159,316

Return on equity:

(Net Income/ Shareholders Equity) x 100

Net income 2021 = 39,370

Shareholders equity= 124,879

= 31.52

Net income 2020 = 29,146

Shareholders Equity = 128,290

=22.71

Equity Multiplier = Total Assets/ Stockholders Equity

Facebook 2021

Total Assets = 165987

Stockholders Equity = 124879

So, Equity Multiplier for Facebook is 1.32

Amazon 2021

Total Assets = 420549

Stockholders Equity = 138245

So, Equity Multiplier for Amazon is 3.04

(5) MARKET VALUE RATIOS:

FY 2020 FY 2021

PE Ratio:

Facebook 26.7 24

Amazon 77.86 51.45

Market to Book Ratio:

Facebook 1.24 1.44

Amazon 17.54 12.27

By contrasting the firm's book value and market value, the book-to-market ratio aids investors in determining a company's value. A high book-to-market ratio could indicate that the market is undervaluing the company's stock. In 2020, Amazon has the greatest ratio (77.86). When it comes to market-to-book ratios, Amazon is in the lead.

**CONCLUSIONS AND RECOMMENDATIONS:**

Facebook's cash position is 19.9% higher than its sales. By 2021, Meta will have $16.6 billion in cash on hand or 14.1% of revenues. Due to users' declining willingness to provide data and private information in the face of rising privacy advocacy, Facebook has been experiencing something of a "context collapse." Compared to Amazon, Facebook has a higher asset turnover rate. But in a year, Amazon's revenue climbed by 0.02%. Employees are more likely to return assets on time and in the right location if you use asset management. Facebook's interest rates have dropped significantly by 23.86, which is a significant amount. Amazon's profit margin grew to a maximum of 7.1%, while Facebook's margin was -0.27%. Facebook's business model is centered on providing its tools and services to billions of users, primarily for free, and then making money by allowing companies to advertise to Facebook's users. Advertisers pay Facebook the price that is decided in an auction based on supply and demand. Both users' and advertisers' levels of engagement on Facebook's main platform have decreased. Despite a decrease in the cost per advertisement, the growth of advertisements has halted. To increase user engagement and ad revenue across the board, the organization must consistently innovate. Through Stories, Facebook first emphasized communication centered around the camera. It intends to make further inroads in the private video communication sector with solutions like Facebook Spaces, which makes use of augmented and virtual reality (Team, 2017).

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