

## Business

- Facebook:
  - ↳ 18% increase in DAV with a 34% increase in mobile use.
- Mention Whatsapp for the first time.
- 9,199 Employees. Approx. 6K last year. (6,337) Expect headcount to continue to grow
- \* In July 2014, acquired Oculus VR sefs. } \$400 million + 23 million Class B Shares for Oculus } Also used RSUs to retain employees.
- In October 2014, acquired Whatsapp. } \$4.6 billion + 178 million Class A Shares for Whatsapp }
- FB continues to drive users to Messenger app which they still do not monetize.
- FB plans to continue to do acquisitions.
- Integrations of Companies as risk:
  - ↳ WhatsApp + Oculus are more complex than previously acquired companies.
  - ⇒ Oculus builds tech products new to FB ⇒ did not have experience or structure to support this kind of business.
- FB has been making investments in expanding infrastructure, specifically through datacenter expansion.
  - ↳ They plan to continue investing in further expanding their infrastructure.
- Payments continue to be only available in PC
  - ↳ PC use is declining with users accessing FB through mobile.
  - ↳ Have experienced reduction in payment revenue according to this trend.
- FB does not intend to pay dividends in foreseeable future
  - + Credit facility limits their ability to pay dividends.

## TRENDS IN USER METRICS

- Based only on FB, does not include Instagram / Whatsapp users.

<u>METRIC</u>	<u>INCREASE</u>	<u>DRIVERS</u>
DAU	18%	Increase in mobile use. ↳ Overall engagement was 64% Worldwide $\text{Engagement} = \text{DAU} / \text{MAU}$ Use of FB through PC continued to decrease. This trend is expected to continue.
Mobile DAU	34%	Trend of increased mobile use seen in all regions ↳ 49% increase in mobile only DAUs
MAU	13%	Increase in mobile use. Will continue with mobile trend.
Mobile MAU	26%	Worldwide increase ↳ 78% increase in mobile only access.
ARPU	39%	\$9.45 Worldwide ↳ Main source US + Canada * As ads increase in geographies with smaller ARPU's, Worldwide ARPU may decrease.

## Components OF RESULTS OF OPERATIONS

- Revenue increased 58% while costs increased 47%
  - ↳ In past years, cost was increasing at a higher pace than revenue.
  - \* See in next fiscal year if this could be FB is now seeing benefits from economies of scale as well as their investments in efficiency.
- Considerable increase in share based compensation for R&D.
  - ↳ Most other segments remained with similar numbers here. More than 1/2 of R&D expense was from share based compensation.

## Revenue +58%

- Increase in advertising segment. Payment only increased 10% while advertising increased 65%.
  - ↳ Bookmarked page 45 for market segment earnings.
- Driver of growth was News Feed ads which show on PC + Mobile.
  - ↳ Estimates that 65% of ad revenue came from mobile.
- Other factors influencing growth:
  - ↳ More advertisers actively advertising in FB.
  - ↳ More engagement from users, specially in mobile.
  - ↳ Product changes that increase performance + value of ads.
- Avg. Price per ad increased 173% + # of ads delivered decreased by 46%.
  - ↳ Product change to non-News Feed ads where less ads were shown but the prominence of each ad increased.
  - ↳ Avg. Price increased due to higher amount of ads through News Feed.
  - ↳ Apart from change above, less # of ads were shown due to greater use of mobile.
- Payments + other fees:
  - ↳ Ad serving + measurement products
  - ↳ Delivery of VR sets

## COST OF REVENUE +15%

- Increase in infrastructure spending for datacenter as well as increased amortization of intangible assets.
- Reversed lease abandonment expense as the decided to reoccupy a previously exited datacenter.
- Expect to increase in 2015 as they increase infrastructure to support user growth.

## RESEARCH + DEVELOPMENT +88%

- Increase in share based compensation + other payroll benefits due to a 48% increase in employee headcount.
- Share-based compensation also increased due to acquisitions in 2014.
- Plan to continue hiring more technical staff for 2015.

## MARKETING + SALES +69%

- Increase in payroll due to 44% increase in headcount.
- Should continue to increase in 2015.

## GENERAL + ADMINISTRATIVE +25%

- Increase in payroll due to 55% increase in headcount.
- Also plans to increase in 2015.

## PROVISION FOR INCOME TAX

- Percentage decreased due to change geographic mix of pre-tax income.

## QUARTERLY RESULTS

- Important increase in share based compensation in Q4 due to acquisitions.

## LIQUIDITY + CAPITAL RESOURCES

- Tax withholdings related to Whatsapp acquisition were funded by net share settlements. Investigate what does this mean.
- Accounting change related to Revenue from contracts with customers:
  - ↳ Revenue is recognized when goods/services are transferred to customers in an amount that reflects the amount expected to be received.
  - ⇒ Will be effective for 2017

## NOTES TO CONSOLIDATED FINANCIALS

### ACQUISITIONS

- Whatsapp
  - ↳ October 2014
  - ↳ Privately-held cross-platform mobile messaging company expected to provide FB with strategic advantages in mobile ecosystem + expand their mobile messaging offering
  - ↳ Cost: 178 million Class A Common Stock
  - ↳ \$4.59 billion in cash
  - ↳ 46 million RSUs to Whatsapp employees ⇒ share-based compensation over required service period. (3 year service)
  - ↳ Accounted for as business combination
    - ⇒ Assets + liabilities recognized at fair value on acquisition date.
  - ↳ Company wholly belongs to FB.
  - ↳ Purchase consideration \$17,193 million
    - ↳ Takes into account cash, value of stocks (\$13.8 billion), minus share-based compensation expense, minus cash.
  - ↳ Proforma for revenue + net income for 2013 provided on page 71.
- Oculus
  - ↳ July 2014
  - ↳ Privately-held company developing virtual reality technology that is expected to expand FB's platform.
  - ↳ Cost: 23 million shares of Class B Common Stock
  - ↳ \$400 million in cash
  - ↳ Additional 3 million Class B Common Stock + \$40 million in cash contingent upon the completion of certain milestones.
  - ↳ Business combination as with whatsapp.
  - ↳ Purchase consideration \$1,853 million (includes contingent consideration)
  - ↳ Also includes share based compensation expense which are tied to service periods.

- Other acquisitions made represented \$485 million but were not material to FB's consolidated financials.
- In-progress Research + Development (IPR+D) was generated during the acquisition of Oculus.
  - ↳ This was recorded at fair value regardless of the likelihood of success of the related product or technology.
  - ↳ At the acquisition date, these assets had no established technological feasibility + no alternative future use.
    - ⇒ Subject to impairment testing until the completion of abandonment of the project.

#### BALANCE SHEET

- Operating lease: **Bookmarked Page 78**
- Number of shares of each class highlighted in p. 79
- Stock-based compensation:
  - ↳ Specifies stocks granted to WhatsApp founder which require a 4 year service period to vest.
    - ⇒ These are excluded from the Stock Plans, therefore run on different terms/conditions.
  - ↳ No options granted, forfeited or canceled for 2014.
  - ↳ Information on Stock Options **Page 50 Bookmarked.**

#### INCOME STATEMENT

- Revenue per geography ⇒ **Bookmarked P. 84**
  - ↳ Still divided in US + Rest of the World as still no other country represents more than 10% of revenue according to the clients' billing addresses.

There is an amendment submitted for this year in which the only change is to correct the consent of a Ernst & Young signature which wasn't correct. Apart from this no changes were made to the financial statements.