

- Increase of 22% in MAU + 49% increase in DAU when comparing 2012 vs 2013.
- According to eMarketer, in 2013 people spent more time on digital media than on TV for the first time.
  - *See if this study can be found.*
- Payments still not available through FB mobile.
- Graph Search beta currently available only through web user in English with expectation of expanding to mobile / international in the future.
- Messenger - mobile to mobile app available on iOS + Android

## Strategy

- 1.5 billion internet users on personal computers + 3 billion mobile users worldwide according to GSMa Wireless Intelligence. *Look up this source.*
  - Mobile usage is critical for FB growth.

## General Comments

- 6,337 employees as of December 31, 2013. (Approx 4000 in 2012  $\Rightarrow$  high growth in headcount as specified they would do in 2012). *4,619 in 2012*

## Risks

- Increase in mobile use as substitute to PC use.
  - MAU in mobile for Q4 2013 exceeding MAUs in PC.
  - Mobile now comprises half of their ad revenue.
    - *$\Rightarrow$  monetization risk: expressed in IPO is no longer valid as they figured it out in 2012.*
  - Mobile advertising remains a new and evolving market.
  - Payment infrastructure not currently offered through mobile.
- Prioritize user growth + experience + engagement over short term financial results.
  - Redirecting users who use Message on FB to standalone Messenger app even though they don't monetize it yet.
  - Plans to grow users + engagement on Instagram even though they don't monetize yet.
    - *They specify that this can have an impact on their relationship with marketers / developers.*
- Costs are continuing to grow:
  - Growing their business requires additional investment + headcount.
    - *They specify that headcount costs grow as they face strong competition to retain employees.*
  - FB will continue to make acquisitions to further grow the business.
  - They started showing ads on Instagram in the United States.
- Loss of key personnel / failure to attract talent.
  - FB plans to hire significant amount of technical employees in 2014.

## Risks related to ownership of Class A Stocks

- FB does not intend to pay dividends in the foreseeable future.
  - Will retain earnings to invest + credit facility has restriction on paying dividends.

## Properties

- Currently expanding offices in Menlo Park
- Constructing new Datacenter in Iowa.

## Consolidated Financials

- CAGR (2009-2013):
  - Revenue  $\Rightarrow$  78%      • EBIT  $\Rightarrow$  81%
- 404
  - Revenue  $\Rightarrow$  55%      • EBIT  $\Rightarrow$  42.1%. 2012 expenses were impacted by IPO which enabled liquidity clause for share based compensation.
    - *When margin is compared to previous years it is lower.*
    - *FB specified last year that they would be incrementing headcount aggressively which would result in higher growth in costs vs growth in revenues.*
- In 2012, \$45 million was reduced in each of income tax refundable from income tax laws carrybacks due to recognition of tax benefits related to share-based compensation.
  - Refund was received in 2013 which increased cash for this year.

## Trends in user Metrics

- Do not include Instagram users unless they use FB as well.
- DAU information includes the use of Messenger stand alone app.
  - *FB specified earlier that they do not monetize Messenger but they do drive users to this app if they are using the Message function inside FB app.*
- Increase of 49% YoY of Mobile DAU of which 71% accessed FB solely through mobile for an increase of 65% of solely mobile users YoY.
- DAUs increased 22% while MAU increased 16%  $\Rightarrow$  higher engagement.
- Worldwide Mobile MAUs increased 39%  $\Rightarrow$  Mobile DAU also increased more here which translates into higher engagement.
- Worldwide ARPU was \$0.81  $\Rightarrow$  23% increase YoY.

## Financials

- Overall increase in expenses but decrease in share-based compensation.
  - Now represents 17% when it represented 32% in 2012 due to IPO.
- Increase in revenue derived on ad: Payment didn't grow significantly.
  - Best feed drove results  $\Rightarrow$  are present both in mobile + computer. Also have higher price + more engagement.
  - FB estimates that mobile represented 45% of revenue vs 31% in 2012. (Specifically ad revenue).
  - 2013 more ads shown + increase of 30% in price per ad vs 2012.
  - 9% increase in payments was driven by more games played in PC.
- No customer represented more than 10% of revenue for 2013  $\Rightarrow$  Zynga dependency is no longer as high.
- 31% in cost of revenue.
  - Operational expenses related to expanding their datacenters + technical infrastructure.
  - Lease abandonment expenses due to exit of leased datacenters due to migration to owned datacenters.
  - Anticipate that it will increase in 2014.
- 12% increase in R&D
  - 50% increase in headcount offset by high stock based compensation expense in 2012.
  - Expense expected to increase at a higher rate in 2014 as they plan to continue increasing headcount.
- 11% increase in sales + marketing.
  - 30% increase in headcount will grow in 2014.
- 12% decrease in general + admin.
  - Decrease due to share-based compensation expense.
  - 19% increase in employee headcount.
  - Increased amortization of acquired patents.
- From Jan 2014, FB began requiring that employees sell a proportion of RSUs that they receive upon vesting in order to cover any required withholding taxes (sell-to-cover) instead of their original approach of net share settlement.
  - Expect that this will reduce cash outflows.
  - *Investigate what does "sell-to-cover" mean concerning RSUs.*
    - $\Rightarrow$  RSUs are taxed as income when they are vested to FB withholds the corresponding RSU amount to cover this tax.
- \$394 million in trapped cash. *See page 54*

## Notes to consolidated Financials

- No customer represented more than 10% of revenue.
- FB completed various acquisitions for \$265 million.
  - Included cash + shares of Class A common stock (both tied + not tied to time constraints)
  - Did not have material effect on income + were allocated at their fair value in assets mainly in intangibles + goodwill.
- Operating leases. *Bookmarked page 10.*
- FB also continues to have other contractual commitments.
  - *Have to investigate if this would have effect on valuation.*
- FB made a follow-on offering of additional shares of Class A common stock.
  - 27M shares
  - \$55.05/share
  - \$1.48 billion in proceeds.
- Number of total shares  $\Rightarrow$  *Bookmarked page 81*
- Stock Options. *Bookmarked page 81. Page 83 also contains information on stock options.*
- Revenue by geography: Mostly US. No other country represents more than 10% of revenue.
  - *Bookmarked page 10 for reference.*