

What Drives Valuation?

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ABSTRACT

This case study bestows an opportunity for the readers to comprehend the conception of valuation and its pertinence for acquisition. Further, the case also highlights the method of valuation employed in Facebook and Whatsapp deal and what inspired Facebook, CEO Mark Zuckerberg to embark at such deal. Facebook has shed a whopping \$19 Billion in stock, cash and restricted stock units, for a start-up ad-free messaging service having a headcount of 55 employees and 450 million users (as on Feb 19, 2014), popularly known as "Whatsapp". This deal has levitated many eyebrows since Facebook Incorporation, the world's most famous social network that connects people with their family and friends, acquired and valued Whatsapp at such a price tag. Whatsapp is a platform facilitated by people for advertisement free correspondence. After the announcement of the deal, people were not astonished, why Facebook acquired Whatsapp, but they could not digest the fact that a mere text messaging applet can be valued at such a price? The answer is still debatable and all the financial analysts and even the evaluators of such acquisitions are unable to crack the financial model of valuation, which has been practiced to arrive at this figure. Why a company that had recently acquired Instagram at \$1 billion, would pay \$19 billion for an ostensibly similar acquisition? What is the psyche of Facebook CEO, while evolving the valuation model? Is it just the financial or something more in the store i.e. brand, network, technology, competition, synergies, etc.?

KEYWORDS: Valuation, Acquisition Social Media, Facebook, Whatsapp.

DISCLAIMER: This case is written solely for educational purposes and is not endeavoured to illustrate successful or unsuccessful managerial decision making. The author(s) may have concealed names, financial and other recognisable information to protect confidentiality.

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