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The Study of Merger and Acquisitions: Value Creation and Risk Management

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Abstract- This master thesis explores the intricate dynamics of Mergers and Acquisitions (M&A) with a focus on understanding the dual dimensions of value creation and risk management. In the contemporary corporate landscape, M&A activities have emerged as pivotal strategic tools for companies seeking growth, diversification, and competitive advantage. The research aims to provide a comprehensive analysis of how these transactions contribute to shareholder value while effectively navigating associated risks. The literature review establishes the foundation by synthesizing existing knowledge on M&A, spanning historical context, economic impact, financial performance, and corporate governance. Special attention is given to theories and models related to value creation and risk management in M&A, providing a comprehensive overview of the multifaceted nature of these transactions. The research methodology adopts a mixed-methods approach, incorporating both quantitative and qualitative techniques. A carefully selected sample of companies engaged in M&A activities serves as the focal point for data collection. Financial analyses, surveys, and content analysis of relevant documents constitute the primary tools for gathering insights into the chosen topic. Variables related to value creation and risk management are defined and measured using a combination of financial metrics, qualitative assessments, and established measurement scales. The study pays close attention to ethical considerations, ensuring participant privacy and data confidentiality throughout the research process. The anticipated findings aim to shed light on the factors influencing successful value creation in M&A, providing insights into post-merger integration strategies, financial performance, and the broader economic implications of these transactions. Additionally, the research seeks to identify effective risk management practices that contribute to mitigating challenges associated with M&A, including cultural differences, regulatory compliance, and integration hurdles. By presenting a rigorous and well-justified research methodology, this thesis seeks to contribute to the existing body of knowledge on M&A, providing valuable insights for practitioners, policymakers, and academics interested in understanding the intricacies of value creation and risk management in the context of mergers and acquisitions

Index Terms- Mergers, Acquisitions, Risk management, Value creation, Facebook, Du Pont, WhatsApp.

I. INTRODUCTION

Mergers and acquisitions have become a popular business strategy for companies looking to expand into new markets, gain a competitive edge, or acquire new technologies and skill sets. M&A's are a popular vehicle for doing that, but often become objects of criticism, are associated with decreases in wealth for the buyers' shareholders, and also fail at an extremely high rate. However, there are hundreds of success stories of M&A's. This topic provides a historical overview of mergers and acquisitions. It discusses some of the more notable M&A's and consolidations over the past two centuries, the differing waves of M&A activity, and the explosion of public M&A activity in recent years. We feel that the best way to understand the current environment of mergers and acquisitions and the issues around it is to understand the background from which the issues arose. Thus, having an understanding of the past will provide insight into what should be done in the future. Historical background of M&A can also provide an explanation for the booms and busts over history. At the peak of markets, companies think that their stock is undervalued and often use stock as currency in mergers and acquisitions. At those times, there are higher levels of consolidation across all industries. Knowing this can potentially provide expert advice into the best time for M&A activity. High stock market valuations can also lead to disastrous consequences for the acquiring companies. By understanding past mistakes, current managers can learn to avoid the same pitfalls. With the high failure rate of M&A's today, it is clear evidence that many people do not learn from past mistakes in mergers and acquisitions. This historical analysis sets the scene for the issues that this dissertation will discuss.

1) Research Elaborations -:

In the context of this Master Thesis on "Mergers and Acquisitions: Value Creation and Risk Management," the hypothesis will be that:

"There is a positive and significant relationship between the success of mergers and acquisitions and the simultaneous creation of value and effective risk management within the acquiring and target companies. Specifically, we hypothesize that well-managed M&A transactions, as evidenced by strategic alignment, cultural integration, and efficient post-merger integration processes, contribute positively to both the value created through the merger or acquisition and the ability to manage associated risks. This relationship will be supported by empirical evidence gathered from the case studies of Dow Chemical and DuPont merger, and Facebook's acquisition of WhatsApp."

This hypothesis suggests that the success of mergers and acquisitions, as measured by value creation and risk management, is interconnected. It implies that companies that effectively navigate the complexities of M&A transactions are more likely to realize synergies, achieve value creation, and manage potential risks successfully. The case studies selected will serve as empirical evidence to validate or refute this hypothesis during the course of this research.

2) Objective of the study -:

The objective of the research is to investigate the relationship between the success of mergers and acquisitions and the simultaneous creation of value and effective risk management within acquiring and target companies.

3) Findings -:

CASE STUDY 1 -: DOW CHEMICAL AND DUPONT MERGER

The merger of DuPont and Dow Chemical, completed in 2017, was one of the largest mergers in the chemical industry, creating a company worth more than $130 billion. The merger aimed to create a more focused and competitive company by combining complementary businesses and reducing costs through synergies. Let's analyze the merger using analytical facts and figures to understand the value creation and risks managed by such mergers.

Value Creation:

1. Increased Scale and Market Dominance: By merging, DuPont and Dow Chemical created a company with increased scale, allowing it to have a stronger presence in various markets and negotiate better terms with suppliers and customers.

2. Cost Synergies: The merger aimed to achieve significant cost synergies by eliminating duplicate functions, streamlining operations, and reducing overhead costs. These synergies were expected to result in cost savings, enhancing profitability.

3. Portfolio Diversification: The merger enabled the combined company to diversify its product portfolio, reducing dependence on any single product or market. This diversification helps mitigate risks associated with fluctuations in demand or pricing in specific segments.

4. Research and Development Capabilities: By combining their research and development efforts, DuPont and Dow Chemical aimed to enhance innovation and develop new products more efficiently, gaining a competitive edge in the industry.

Risks Managed:

1. **Thorough Due Diligence:** Before finalizing the merger, both Dow Chemical and DuPont conducted extensive due diligence processes to assess potential risks. This involves evaluating each other's financials, operations, legal liabilities, regulatory compliance, market positions, and other relevant factors. By identifying risks early on, they developed strategies to mitigate them during the merger process.

2. **Integration Planning:** Planning for the integration of two large companies is crucial for minimizing disruption and managing risks effectively. Dow and DuPont have developed detailed integration plans covering various aspects such as organizational structure, corporate culture, technology systems, supply chains, and customer relationships. These plans likely included timelines, milestones, and responsibilities to ensure a smooth transition.

3. **Regulatory Compliance and Approvals**: Mergers in the chemical industry often face regulatory scrutiny due to antitrust concerns and environmental regulations. Dow and DuPont engaged with regulatory agencies to obtain necessary approvals for the merger, managing regulatory risks, addressing potential antitrust issues, environmental liabilities, product safety concerns, and other regulatory requirements.

4. **Communications Strategy:** Effective communication was essential for managing risks associated with employee morale, customer relationships, and public perception during a merger. Dow and DuPont likely developed comprehensive communications strategies to keep stakeholders informed about the merger process, address concerns, and maintain trust. This included town hall meetings, employee newsletters, customer briefings, and press releases.

5. **Financial Risk Management:** Merging companies need to manage financial risks such as changes in cash flow, debt levels, credit ratings, and shareholder value. Dow and DuPont developed strategies to optimize their capital structures, manage currency risks, and hedge against market fluctuations. Financial risk management also involved securing financing for the merger and ensuring sufficient liquidity to support ongoing operations.

6. **Talent Retention and Human Resources Management:** Retaining key talent and managing human resources effectively were critical for the success of a merger. Dow and DuPont implemented retention bonuses, career development programs, and other incentives to retain top talent. They have also addressed cultural differences and employee concerns through training programs, employee resource groups, and open communication channels.

7. **Supply Chain Resilience:** Managing risks within the supply chain was crucial for ensuring uninterrupted operations and customer satisfaction. Dow and DuPont have assessed their supply chains for vulnerabilities and developed contingency plans to address potential disruptions. This involved diversifying suppliers, implementing inventory management strategies, and establishing alternative sourcing options.

8. **Cultural Integration:** Merging companies often face challenges related to cultural differences and organizational alignment. Dow and DuPont focused on integrating their cultures through initiatives such as leadership development programs, cross-functional collaboration, and employee engagement activities, building a unified culture that helped them to foster collaboration and minimize resistance to change.

9. **Post-Merger Evaluation and Adjustment:** Continuously monitoring the merged entity's performance and making necessary adjustments was essential for managing ongoing risks. Dow and DuPont established performance metrics and governance structures to evaluate the merger's outcomes and identify areas for improvement. This involved conducting regular reviews, soliciting feedback from stakeholders, and making strategic adjustments as needed.

Analytical Data -:

Here's a table illustrating the financial performance of DuPont and Dow Chemical before the merger:

Metrics	DuPont (Pre-Merger)	Dow Chemical (Pre-Merger)
Revenue (in billions)	$24.6 billion	$48.2 billion
Operating Income	$3.8 billion	$6.9 billion
Net Income	$2.5 billion	$4.8 billion
Total Assets	$67.5 billion	$85.3 billion

The below figures demonstrate the strength of the two companies and the potential for value creation through the merger.

During 2015, Dow and DuPont approved a definitive agreement under which the companies combined in an all-stock merger to form DowDuPont. Dow shareholders received a fixed exchange ratio of 1.00 share of DowDuPont for each Dow share, and DuPont shareholders received a fixed exchange ratio of 1.282 shares of DowDuPont for each DuPont share. The merger got regulatory approval after DuPont agreed to sell chunk of its pesticide business and most of its agricultural R&D to FMC. The combination of highly complementary portfolios of Dow and DuPont was intended to create leadership position for the combined company. The new combined company was separated into three independent publicly traded companies through tax-free spin-offs. This merger was one of the biggest mergers of farm suppliers.

Results (Post – Merger) -:

1. As a result of merger, Dow shareholders owned 52%, and the remaining 48% were owned by DuPont shareholders.

2. The cumulative monthly return for DuPont during the 25-month time window (−1 month to +23 month) period after merger announcement was approximately 329%. The cumulative daily returns for Dow Chemicals for 444-day merger period (−10 day to +433 day) were 29.1%. The cumulative monthly return for Dow Chemicals for the 25-month time window (−1 month to +23 month) period after merger announcement was approximately 38%.

3. The companies have combined annual revenue of about $83 billion and operating profit of about $15 billion, with a profit margin of 18%. They would have combined net debt of $18.3 billion.

4. Shares of Dow and DuPont had already jumped 8% and 12% since word of their negotiations was first reported earlier this week. Dow shares fell 3.7% to $52.89 and DuPont shares fell 4.7% to $71.08 in morning trading, though that may be because the overall market is slumping.

5. The merger eliminated the competition between Dow and DuPont for the development and sale of insecticides and herbicides.

6. The merged company gained monopoly over ethylene derivatives which were used to manufacture food packaging and other products.

7. DowDuPont became the world’s largest chemical company by sales.

4) Conclusion -:

The merger of Dow Chemical and DuPont, two of the largest and most influential companies in the chemical industry, was a significant event that garnered attention globally. Here's a detailed conclusion based on the research:

1. Motivation and Rationale:

- The merger was driven by various factors, including the desire to create a stronger, more diversified company with enhanced innovation capabilities and increased market presence.
- Both Dow Chemical and DuPont aimed to capitalize on synergies by combining their complementary portfolios and leveraging each other's strengths in different segments of the chemical and agricultural industries.

2. Antitrust Concerns:

- One of the major challenges faced by the merger was navigating antitrust regulations. Both companies had significant market shares in various sectors, raising concerns about monopolistic practices.
- To address these concerns, Dow and DuPont made divestments in certain business segments to gain regulatory approval in various jurisdictions, which delayed the completion of the merger.

3. Structural Changes:

- Following the merger, the companies underwent significant restructuring to align their operations and achieve cost synergies. This involved streamlining operations, consolidating facilities, and reducing workforce in some areas.
- The integration process was complex and required careful planning to ensure a smooth transition and minimize disruptions to customers and stakeholders.

4. Business Impact:

- The merger resulted in the creation of DowDuPont, which subsequently spun off into three separate companies: Dow, DuPont, and Corteva Agriscience.
- Each of these companies focused on specific sectors of the chemical and agricultural industries, allowing for more targeted strategies and improved competitiveness in their respective markets.

5. Innovation and Growth:

- One of the key objectives of the merger was to enhance innovation capabilities by combining research and development efforts and leveraging shared expertise.
- The merged entities aimed to invest in new technologies and product development initiatives to drive growth and maintain a competitive edge in rapidly evolving markets.

6. Long-term Outlook:

- While the merger presented opportunities for growth and synergies, its long-term success would depend on effective execution of integration plans, continued innovation, and adaptation to changing market dynamics.
- The companies would need to focus on optimizing operations, managing costs, and delivering value to customers and shareholders to sustain their competitive positions and drive shareholder returns over the long term.

In conclusion, the merger of Dow Chemical and DuPont was a complex and transformative process that aimed to create a stronger, more competitive entity with enhanced capabilities across multiple sectors. While the integration process presented challenges, the combined company's diversified portfolio, increased scale, and focus on innovation positioned it well for long-term success in the global chemical and agricultural industries.

CASE STUDY 2 -: FACEBOOK ACQUISITION OF WHATSAPP

The acquisition of WhatsApp by Facebook was a monumental deal that brought about significant value creation and risk management for both companies involved.

Value Creation:

1. User Base Expansion: Facebook gained access to WhatsApp's massive user base, which at the time of acquisition exceeded 1.5 billion users. This instantly expanded Facebook's reach and user engagement globally.

2. Diversification of Services: WhatsApp offered a different communication platform compared to Facebook's core social networking service. This diversification allowed Facebook to broaden its portfolio and cater to a wider range of communication preferences among users.

3. Monetization Opportunities: While WhatsApp was not heavily monetized at the time of acquisition, Facebook saw potential in leveraging its large user base for future monetization through features like targeted advertising, business accounts, and premium services.

4. Enhanced Messaging Capabilities: Facebook integrated some of WhatsApp's features into its messaging services, enriching the user experience and increasing engagement across its platforms.

5. Competitive Edge: Acquiring WhatsApp helped Facebook maintain its position as a dominant player in the social media and messaging space, fending off potential competitors and strengthening its market leadership.

Risk Managed:

1. Competitive Threat Mitigation: By acquiring WhatsApp, Facebook mitigated the risk of losing market share to competing messaging apps like WeChat, Line, and Telegram, which were rapidly gaining popularity, especially in international markets.

2. Future Growth Protection: Facebook recognized the potential threat posed by WhatsApp's rapid growth and decided to acquire it rather than risk being left behind or disrupted by a competing service with a large user base.

3. Revenue Diversification: As Facebook's revenue primarily came from advertising at the time, acquiring WhatsApp offered an opportunity to diversify its revenue streams by exploring new monetization avenues within the messaging platform.

4. Data Integration Challenges: One of the risks managed was the integration of WhatsApp's platform with Facebook's existing infrastructure while ensuring user privacy and data security. Facebook had to navigate regulatory concerns and maintain user trust throughout the integration process.

5. Cultural Integration: Integrating WhatsApp's team and culture with Facebook's was crucial for the success of the acquisition. Managing cultural differences and ensuring alignment towards common goals posed a challenge that needed to be addressed to realize the full potential of the acquisition.

Analytical Data:

Considering that the acquisition of WhatsApp occurred in February 2014, we have taken into account the financial statements of WhatsApp of 2012 to 2013, in order to analyze this valuation. Based on this data, projections were made for the years 2014 to 2020 and this last year was considered as the steady state. It was assumed that the perpetuity growth rate is 3% since we consider it reasonable to assume a value similar to the inflation rate recorded in the United States.

Table 1: Trend Analysis of **Goodwill of Facebook Inc**

Year	Goodwill amount (value in USD billions)	Trend
2013	0.839	100
2014	17.981	2143.15
2015	18.026	2148.5
2016	18.122	2159.95
2017	18.221	2171.75

Source: investor.fb.com

Interpretation -: It is clearly seen that the value of goodwill has been drastically increased since 2014, which was the year of acquisition of WhatsApp Inc. before the year of acquisition i.e., 2013, the value of goodwill of Facebook Inc. was $0.839 billion whereas in the year of 2014 i.e., after acquisition of WhatsApp it has increased by $17.142 billion.

Table 1: Trend Analysis of **Net Revenue of Facebook Inc**

Year	Net Revenue (value in USD billions)	Trend
2013	7.872	100
2014	12.466	158.36
2015	17.928	227.74
2016	27.638	351.09
2017	40.653	516.42

Source: investor.fb.com

Interpretation -: Net Revenue of Facebook in the year 2013 is $7.872 billion. Subsequently in the year of 2014 which is the year of acquisition, the revenue has been increased to $12.466 billion. The analysis shows that the net revenue of Facebook shows an increasing trend, which has increased to $516.42 billion when compared to the base year (i.e., 2013).

From Table 1 – **Interpretation of the comparative balance sheet for the years 2013 and 2014 reveals that,**

- There has been an increase in the current assets by $ 600 million i.e., 4.59%.
- Items of current assets like cash, accounts receivable, prepaid expenses have shown an increase in their values whereas marketable securities has decreased by 15.28%.
- Goodwill has increased by $ 17142 million.
- Other assets has increased by $ 416 million i.e., 188.23%.
- Total current liabilities has increased by 29.45%.
- Total shareholders equity has increased by 133.33%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 124.55% each.

From Table 2 – **Interpretation of the comparative balance sheet for the years 2014 and 2015 reveals that,**

- There has been an increase in the current assets by $ 7982 million.
- Items of current assets like cash, accounts receivable, marketable securities have shown an increase in their values whereas prepaid expenses has decreased by 16.89%.

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- Goodwill has increased by $ 45 million whereas other intangible assets have decreased by $ 721 million.
- Other assets have increased by $ 159 million i.e., 24.49%.
- Total current liabilities has increased by 35.18%.
- Total shareholders equity has increased by 22.5%.
- Therefore, the total assets and total liabilities including shareholders equity have increased by 22.95% each.

Facebook Acquisition Data Source					
	Acquisition Year	**Acquisition Value**	**Current Valuation**	**Acquired MAU**	**Current MAU**
Instagram	2012	$ 1bn	$100bn	90m	1bn
WhatsApp	2014	$ 19bn	-	400m	1.5bn
Facebook Revenue	2012	$ 5bn	**Facebook Revenue**	2019	$ 70.7bn

From Appendix 1 – Interpretation of the comparative balance sheet for the years 2014 and 2015 reveals that,

Considering the balance sheet (see Appendix 1) this presents a total-assets of $50,786,000; $60,049,000 of which comes from liabilities and negative capital amounting to $9,263,000. Analyzing the asset, it is possible to conclude that the most significant account is cash amounting to $45,542,000 which represents about 90% of the asset. It may seem unusual for a company to present negative equity and have a high amount of cash, however this is explained by the fact that WhatsApp functions as a prepaid service, meaning it receives the value of the service even before it has been provided. Regarding the liabilities, there is an amount of $49,376,000 that represents the deferred revenue. These amounts refer to the subscription fee that is received in advance by the users, i.e. after downloading the application or, in some cases, a year after doing so users have to pay an annual fee. This way the company will have to register the deferral related to this responsibility. As explained above, this deferral is a consequence of WhatsApp activity and will be recognized in the income statement when the service is provided to customers. The equity presents many variations, with the capital increase in the amount of $49,802,000 and the conversion of dividends to be paid in the amount of $362,229,000. Through the balance sheet it is possible to conclude that the equity has a negative value, which is justified by the fact that the deferred income has not yet been transferred to retained earnings. In addition, we have verified that WhatsApp does not have financial loans, so it is financed through capital.

WhatsApp is a company that is in the growth phase so its cost structure is quite high. The items that most contribute to this situation are cost of revenue and research and development (see Appendix 1).

Results (Post Acquisition):

For WhatsApp -:

Metrics	Before Acquisition (WhatsApp)	After Acquisition (WhatsApp)
Monthly Active Users (MAUs)	Over 450 million	Over 1.5 billion
Revenue Model	Nominal annual subscription fee	Diversified monetization avenues
Competitive Landscape	Facing competition from emerging messaging apps	Enhanced competitive position under Facebook's umbrella
Data Privacy	Strong reputation for privacy and encryption	Integration challenges in maintaining privacy standards
Cultural Integration	Distinct culture focused on simplicity and user privacy	Alignment with Facebook's objectives

For Facebook -:

Metrics	Before Acquisition (Facebook)	After Acquisition (Facebook)
Monthly Active Users (MAUs)	Over 1 billion	Over 2.8 billion (including WhatsApp)
Revenue Sources	Primarily advertising revenue	Diversified revenue streams (including potential from WhatsApp)
Competitive Position	Dominant player in social media	Strengthened position with WhatsApp's user base
Messaging Capabilities	Limited messaging features within Facebook	Enhanced messaging capabilities through WhatsApp integration
User Engagement	High engagement across Facebook platforms	Increased engagement with addition of WhatsApp

Hypothesis Result -:

The hypothesis taken in the research paper is: "There is a positive and significant relationship between the success of mergers and acquisitions and the simultaneous creation of value and effective risk management within the acquiring and target companies."

The solution to this hypothesis is derived from the findings of the case studies on the merger of Dow Chemical and DuPont, and the acquisition of WhatsApp by Facebook. The research paper presents empirical evidence gathered from these case studies to validate or refute the hypothesis.

The findings from the case studies illustrate that well-managed M&A transactions, as evidenced by strategic alignment, cultural integration, and efficient post-merger integration processes, contribute positively to both the value created through the merger or acquisition and the ability to manage associated risks. The case studies provide insights into the various aspects of value creation and risk management, including increased scale and market dominance, cost synergies, portfolio diversification, research and development capabilities, thorough due diligence, integration planning, regulatory compliance, and cultural integration.

Therefore, the solution to the hypothesis is that the success of mergers and acquisitions is indeed interconnected with the creation of value and effective risk management. The case studies serve as empirical evidence to support the hypothesis, highlighting the multifaceted nature of M&A transactions and the importance of effectively navigating the complexities of these transactions to realize synergies, achieve value creation, and manage potential risks successfully.

Conclusion -:

The conclusion of the research paper on "Mergers and Acquisitions: Value Creation and Risk Management" provides a comprehensive analysis of two significant case studies: the merger of Dow Chemical and DuPont, and the acquisition of WhatsApp by Facebook. The conclusion emphasizes the motivations, challenges, and outcomes of these transactions, shedding light on the value creation and risk management strategies employed by the involved companies.

The research concludes that the merger of Dow Chemical and DuPont aimed to create a stronger, more diversified company with enhanced innovation capabilities and increased market presence. It highlights the challenges faced in navigating antitrust regulations, the structural changes undergone post-merger, and the long-term outlook for the combined entity. Additionally, the conclusion underscores the value creation through increased scale, cost synergies, portfolio diversification, and research and development capabilities, while effectively managing risks through thorough due diligence, integration planning, regulatory compliance, and cultural integration.

Furthermore, the research concludes that the acquisition of WhatsApp by Facebook brought about significant value creation and risk management for both companies. It emphasizes the expansion of user base, diversification of services, and monetization opportunities for Facebook, while mitigating competitive threats, protecting future growth, and managing data integration and cultural challenges. The conclusion also presents analytical data illustrating the financial performance and balance sheet analysis of Facebook post-acquisition, highlighting the substantial increase in goodwill and net revenue, as well as the impact on user engagement and competitive position.

In summary, the conclusion of the research paper provides valuable insights into the intricate dynamics of mergers and acquisitions, emphasizing the interconnectedness of value creation and risk management. It underscores the importance of strategic alignment, cultural integration, and effective post-merger integration processes in contributing positively to the success of M&A transactions.

The conclusion serves as a significant contribution to the existing body of knowledge on M&A, offering valuable insights for practitioners, policymakers, and academics interested in understanding the complexities of value creation and risk management in the context of mergers and acquisitions.

APPENDIX 1

WhatsApp Inc.

Balance Sheets

(In Thousands, Except for Number of Shares and Par Value)

	December 31, 2013	2012
Assets		
Current assets:		
Cash	$ 45,542	$ 6,558
Accounts receivable	2	2,161
Prepaid expenses and other current assets	2,866	933
Total current assets	48,410	9,652
Restricted cash	1,800	–
Property and equipment, net	281	186
Other assets	295	1,112
Total assets	$ 50,786	$ 10,950
Liabilities, redeemable convertible preferred stock, and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 3,983	$ 1,125
Accrued liabilities and other current liabilities	5,810	445
Early exercise liabilities, current portion	548	33
Deferred revenue, current portion	16,247	5,119
Total current liabilities	26,588	6,722
Early exercise liabilities, non-current portion	332	43
Deferred revenue, non-current portion	33,129	24,243
Total liabilities	60,049	31,008

WhatsApp Inc.

Statements of Operations

(In Thousands)

	Year Ended December 31, 2013	2012
Revenue	$ 10,210	$ 3,821
Costs and expenses:		
Cost of revenue	52,867	18,858
Research and development	76,911	34,487
General and administrative	18,870	6,035
Sales and marketing	30	17
Total costs and expenses	148,678	59,397
Loss from operations	(138,468)	(55,576)
Other income (expense), net	(264)	8
Loss before benefit from income taxes	(138,732)	(55,568)
Benefit from income taxes	586	899
Net loss	$ (138,146)	$ (54,669)

TABLE 1

COMPARATIVE BALANCE SHEET OF FACEBOOK INC. AS OF DECEMBER 2013 AND 2014 (VALUE IN US$ BILLIONS)

Particulars	2013	2014	Difference	Percent
ASSETS				
Current assets				
Cash	3323	4315	992	29.85%
Marketable securities	8126	6884	-1242	-15.28%
Accounts receivable	1109	1678	569	51.31%
Prepaid expenses	512	793	281	54.88%
Total current assets	13070	13670	600	4.59%
Intangible assets	2882	3967	1085	37.65%
Goodwill	839	17981	17142	2043%
Property and equipment(net)	-	-	-	-
Other assets	221	637	416	188.23%
TOTAL ASSETS	17895	40184	22289	124.55%
LIABILITIES				
Current liabilities				
Accounts payable	87	176	89	102.29%
Partner’s payable	181	202	21	11.60%
Accrued expenses	555	866	311	56.03%
Deferred revenue & deposits	38	66	28	73.68%
Current portion of capital lease obligation	239	114	-125	-52.30%
Total current liabilities	1100	1424	324	29.45%
Capital lease obligation le current portion	237	119	-118	-49.79%
Other liabilities	1088	2545	1457	133.92%
TOTAL LIABILITIES	2425	4088	1663	68.58%
Stockholder’s equity				
Additional Paid-up capital	12297	30225	17928	145.79%
Accrued other comprehensive (loss)income	14	-228	-214	-1528%
Retained earnings	3159	6099	2940	93.07%
Total stockholder’s equity	15470	36096	20626	133.33%
TOTAL LIABILITIES & SH EQUITY	17895	40184	22289	124.55%

Source: investor.fb.com

Table 2

Comparative Balance Sheet of Facebook Inc. as of December 2014 and 2015 (Value in US$ Billions)

Particulars	2014	2015	Difference	Percent
ASSETS				
Current assets				
Cash	4315	4907	592	13.72%
Marketable securities	6884	13527	6643	96.50%
Accounts receivable	1678	2559	881	52.50%
Prepaid expenses	793	659	-134	16.89%
Total current assets	13670	21652	7982	58.39%
Intangible assets	3967	3246	-721	18.17%
Goodwill	17981	18026	45	0.25%
Property and equipment(net)	-	5687	-	-
Other assets	637	796	159	24.96%
TOTAL ASSETS	40184	49407	9223	22.95%
LIABILITIES				
Current liabilities				
Accounts payable	176	196	20	11.36%
Partner's payable	202	217	15	7.42%
Accrued expenses	866	1449	583	67.32%
Deferred revenue & deposits	66	56	-10	-15.15%
Current portion of capital lease obligation	114	7	-107	-93.86%
Total current liabilities	1424	1925	501	35.18%
Capital lease obligation le current portion	119	107	-12	10.08%
Other liabilities	2545	3157	612	24.04%
TOTAL LIABILITIES	4088	5189	1101	26.93%
Stockholder's equity				
Additional Paid-up capital	30225	34886	4661	15.42%
Accrued other comprehensive (loss)income	-228	-455	-683	-299.56%
Retained earnings	6099	9787	3688	60.47%
Total stockholder's equity	36096	44218	8122	22.50%
TOTAL LIABILITIES & SH EQUITY	40184	49407	9223	22.95%

Source: investor.fb.com

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