

UNIVERSITY OF BRADFORD

MERGERS & ACQUISITIONS - MBA

MAN4125M

30<sup>th</sup> June 2014

09:15 – 11:15 hours

Plus 15 minutes reading time

*Main*

This is an **OPEN BOOK** examination

Section A Question 1 **Compulsory Question**

Section B Answer **ONE** of the TWO questions

Each question carries the same weight.

You are strongly advised to divide your time for each question roughly in line with the %-weight.

The following remarks apply to all three questions:

**Higher marks are given for original thinking, good support/illustration of arguments through case study material, critical evaluation of relevant theoretical concepts, references to empirical evidence as well as a logical structure and clear communication.**

Please note: Marks cannot be earned by simply copying textbook material, slides or case study material.

## SECTION A

**Question 1 is compulsory for all students.**

### Question 1

In February 2014 Facebook announced the acquisition of WhatsApp for \$ 19 billion (see appendix). Last year WhatsApp had \$ 20 million revenue and was rumoured to be profitable. Critically assess the value creation potential of this deal. Is the price justified in your opinion?

(50 %)

## SECTION B

**Please choose ONE of the following two questions:**

### Question 1:

Are acquisitions successful? How can acquisition success be measured? What are the key findings and the key parameters influencing acquisition success?

(50 %)

### Question 2:

Outline Tesco's growth portfolio and illustrate the portfolio with examples. Identify and discuss criteria to assess Tesco's growth portfolio.

(50 %)

## Appendix: Articles for Question 1:

### Facebook and WhatsApp

#### Getting the messages

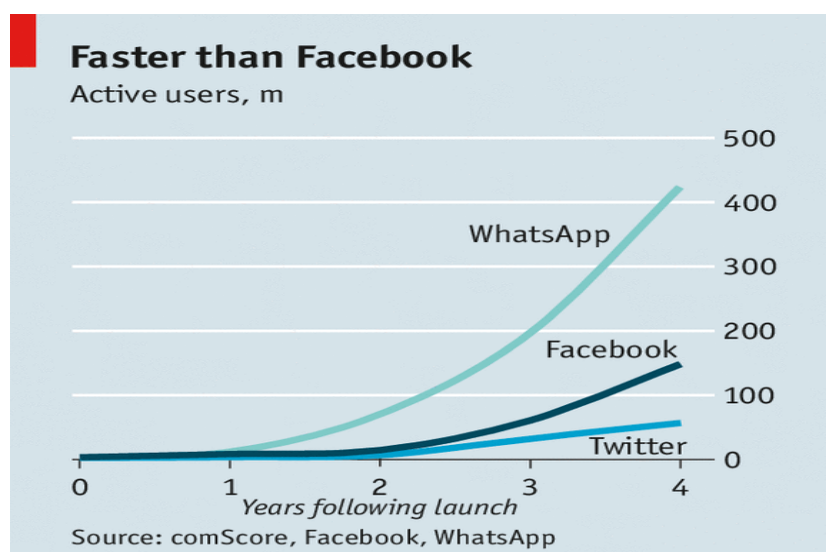
#### Why Mark Zuckerberg's social network is paying such a whopping sum for a messaging startup

The rivalries among the tech industry's giants have often resembled a "Game of Thrones", in which companies such as Facebook, Google, Amazon and Apple constantly try to invade one another's online kingdoms. On February 19th Facebook took a dramatic step to defend its turf, saying it would pay \$19 billion for WhatsApp, a messaging service that had also attracted the attention of Google and almost certainly other suitors.

Even veterans of Silicon Valley goggled at the staggering sum of money changing hands, which comprises a mixture of cash and shares in Facebook. WhatsApp's price tag is the most ever paid for a venture-capital-backed company and gives a startup founded in 2009 a valuation that is greater than that of household names such as Southwest Airlines and Sony.

The deal marks the coming-of-age of messaging apps, which let people send text messages and share photos and other stuff without incurring charges from telecoms firms. WhatsApp is free to use for 12 months and then costs a mere 99 cents a year. Plenty of other such apps have sprung up, including Viber, which Rakuten, a Japanese internet giant, recently bought for \$900m, and the immensely popular WeChat, which belongs to Tencent, an innovative Chinese company.

All of them have benefited from two profound trends that are transforming the technology landscape. The first of these is the rapid growth of web-connected smartphones, which has allowed WhatsApp and its rivals to spread like wildfire. Announcing the deal Mark Zuckerberg, Facebook's boss, said WhatsApp had reached 450m users much faster than any other web service (see chart). It has also made itself addictive: 72% of its users are active on it every day. And the viral nature of its appeal means it has achieved all this without spending a penny on marketing.



Casual-gaming apps are also spreading rapidly on mobile devices. King.com, which filed for an IPO in New York on February 18th, is a case in point. The company, which makes the hit game "Candy Crush Saga", saw its monthly active users soar from 67m in the fourth quarter of 2012 to 408m in the same period last year. Its revenues soared too, hitting \$1.9 billion last year compared with \$164m in 2012.

The second trend behind WhatsApp's success is the dramatic decline in the cost of building start-ups. Thanks to things such as cloud computing, which lets young firms buy vast amounts of cheap computing capacity, entrepreneurs can create globe-spanning businesses on shoestring budgets. WhatsApp has just 32 software engineers, which means that each one supports some 14m users. And the volume of messages it is handling is said to be the equivalent of all the SMS messages transmitted by the world's telecoms companies.

Indeed, WhatsApp's success in many ways mirrors that of Facebook itself, which came from nowhere to dominate social networking. Recently, however, Facebook has been losing some of its cool, especially among younger users. That may explain why the famously paranoid Mr Zuckerberg is willing to pay a king's ransom for a company that might ultimately eclipse his own creation. He has spent lavishly before, paying around \$1 billion for Instagram, a photo-sharing app, in 2012.

But does the whopping price tag for WhatsApp make sense? Assuming it keeps adding users at its current rate of 1m a day—and they end up paying for its service—it could generate hundreds of millions of dollars of revenue. Twitter, which reported \$665m of revenue last year, has a market capitalisation of \$30 billion. Much will depend on how well Mr Zuckerberg gets on with Jan Koum, the boss of WhatsApp, who is joining Facebook's board and will run the app as an independent business. Mr Koum, who has a well-known aversion to collecting people's data and plastering advertising over his app, seems an odd bedfellow for Facebook. But the deal was clearly one that he couldn't refuse.

*Source: The Economist, <http://www.economist.com/node/21596966/print>, accessed on March 30, 2014*

### **WhatsApp: A \$19 billion bet for Facebook**

*By BARBARA ORTUTAY and MICHAEL LIEDTKE February 20, 2014 12:30 AM*

NEW YORK (AP) — Facebook is placing a \$19 billion bet on reaching its next billion mobile users with the acquisition of WhatsApp, a popular messaging service that lets people send texts, photos and videos on their smartphones.

The \$19 billion deal is by far Facebook's largest and bigger than any that Google, Microsoft or Apple have ever done. But it is likely to raise worries that Facebook and other technology companies are starting to become overzealous in their pursuit of promising new products and services, said Anthony Michael Sabino, a St. John's University business professor.

"This could be seen as a microcosm of a bubble," Sabino said. "I expect there to be a lot of skepticism about this deal. People are going to look at this and say, 'Uh-oh, did they pay way too much for this?'"

Facebook, for its part, is taking the long view. WhatsApp has 450 million monthly users, 70 percent of whom use it every day. The service is adding a million new users a day. There are 19 billion messages sent and 34 billion received via WhatsApp each day, in addition to 600 million photos and 100 million video messages.

At this rate, Facebook CEO Mark Zuckerberg is confident the app will reach a billion users. Services that reach that milestone, Zuckerberg said in a statement, "are all incredibly valuable."

It's an elite group to be sure — one that includes Google (which owns YouTube), Facebook itself and little else.

Facebook said Wednesday that it's paying \$12 billion in stock and \$4 billion in cash for WhatsApp. In addition, the app's founders and employees — 55 in all — will be granted restricted stock worth \$3 billion that will vest over four years after the deal closes.

The transaction translates to roughly 11 percent of Facebook's market value. In comparison, Google's biggest deal was its \$12.5 billion purchase of Motorola Mobility, while Microsoft's largest was Skype at \$8.5 billion. Apple, meanwhile, has never done a deal above \$1 billion.

Facebook's \$1 billion Instagram deal seems like a bargain in retrospect. Capturing mobile users — and young people — was a big reason behind Facebook's 2012 purchase of the photo-sharing app. Even its reported \$3 billion offer for disappearing-message app Snapchat pales in comparison. Snapchat spurned the bid.

The deal stunned Gartner analyst Brian Blau. "I am not surprised they went after WhatsApp, but the amount is staggering," he said.

The world's biggest social networking company likely prizes WhatsApp for its audience of teenagers and young adults who are increasingly using the service to engage in online conversations outside of Facebook, which has evolved into a more mainstream hangout inhabited by their parents, grandparents and even their bosses at work.

WhatsApp also has a broad global audience.

Zuckerberg said the service "doesn't get as much attention in the U.S. as it deserves because its community started off growing in Europe, India and Latin America. But WhatsApp is a very important and valuable worldwide communication network. In fact, WhatsApp is the only widely used app we've ever seen that has more engagement and a higher percent of people using it daily than Facebook itself."

Blau said Facebook's purchase is a bet on the future. "They know they have to expand their business lines. WhatsApp is in the business of collecting people's conversations, so Facebook is going to get some great data," he noted.

In that regard, the acquisition makes sense for 10-year-old Facebook as it looks to attract its next billion users while keeping its existing 1.23 billion members, including teenagers, interested. The company is developing a "multi-app" strategy, creating its own applications that exist outside of Facebook and acquiring others. It released a news reader app called Paper earlier this month, and has its own messaging app called Facebook Messenger.

"Facebook seems to be in acknowledgement that people are using a lot of different apps to communicate," said eMarketer analyst Debra Aho Williamson. "In order to continue to reach

audiences, younger in particular, it needs to have a broader strategy...not put all its eggs in one basket."

Facebook said it is keeping WhatsApp as a separate service, just as it did with Instagram, which it bought for about \$715.3 million nearly two years ago.

At \$19 billion, Facebook is paying \$42 per WhatsApp user in the deal.

For Facebook, WhatsApp's huge user base, fast growth pace and popularity is worth the money.

"We want to provide the best tools to share with different sized groups and in different contexts and to develop more mobile experiences beyond just the main Facebook app, like Instagram and Messenger," Zuckerberg said in a conference call. "This is where we see a lot of new growth as well as a great opportunity to better serve our whole community."

WhatsApp, a messaging service for smartphones, lets users chat with their phone contacts, both one-on-one and in groups. The service allows people to send texts, photos, videos and voice recordings over the Internet. It also lets users communicate with people overseas without incurring charges for pricey international texts and phone calls. It's free to use for the first year and costs \$1 per year after that. It has no ads.

"It'll be tempting to read this as a sign Facebook is scared of losing teens," said Forrester analyst Nate Elliot in an emailed note. "And yes, the company does have to work hard to keep young users engaged. But the reality is, Facebook always works hard to keep all its users engaged, no matter their age. Facebook is tireless in its efforts to keep users coming back."

Asked about the demographics of WhatsApp's users, Facebook finance chief David Ebersman said that, "if you look at the kind of penetration that WhatsApp has achieved, it sort of goes without saying that they have good penetration across all demographics, we would imagine.

That said, "it's not a service that asks you to tell them your age when you sign up," he added.

Facebook's shares fell \$1.82, or 2.7 percent, to \$66.24 in after-hours trading Wednesday after the deal was announced. Earlier in the day, the stock hit a 52-week high of \$69.08.

Source: Yahoo News, <http://news.yahoo.com/whatsapp-19-billion-bet-facebook-053029423--finance.html>, accessed on March 30, 2014