

Facebook Makes Mobile Messaging Waves with \$19B WhatsApp Buy

Ben Munson

Facebook unleashed a big surprise late Wednesday, announcing it was acquiring WhatsApp in a deal valued at \$19 billion.



Facebook's price for snapping up the hugely popular OTT messaging platform ran \$4 billion in cash, \$12 in Facebook stock and another \$3 billion in restricted stock units, vesting over the next four years, for WhatsApp founders and employees.

[In a press release detailing the transaction](#) [1], Facebook said WhatsApp has 450 million monthly users and that 70 percent of those users are active any given day. The release added that WhatsApp's messaging volume is close to matching the entire global volume of SMS.

"WhatsApp is on a path to connect 1 billion people. The services that reach that milestone are all incredibly valuable," Facebook CEO Mark Zuckerberg said in a statement.

But the surprise, expensive acquisition caused Facebook shares to take an initial hit. Just a day after Facebook stock [opened at an all-time high](#) [2], it [sank almost five percent](#) [3] on news of the social media legacy acquiring WhatsApp.

Now however, Facebook is back on track, opening the day down just half a percent, with analysts largely looking favorably at the value of the deal.

Facebook is paying \$42 per user for WhatsApp. In a note, Deutsche Bank analyst Ross Sandler [pointed out](#) [4] how favorably that compared with a market value per user of \$170 for Facebook and \$212 for Twitter.

Facebook and WhatsApp should make a formidable team going after the rapidly growing messaging market. Global messaging volumes are expected hit 69 trillion with subscribers growing to 1.8 billion by the end of 2014, according to Ovum

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forecasts.

The deal fills in an important blank for Facebook as well.

“With the acquisition, Facebook has gained access to WhatsApp’s large repository of phone numbers, which was a missing link for Facebook’s user information,” Eden Zoller, principal consumer telecoms analyst at Ovum, said in a statement.

Zoller added that the WhatsApp deal will be a boon to Facebook’s mobile aspirations and make the service “grow faster and be stickier with mobile first users.” Meanwhile, Facebook will provide WhatsApp with the funds to grow stronger and more competitive in the dizzying OTT messaging space.

But the deal could have some incidental benefits for other players in the messaging space. BlackBerry’s stock is up more than four percent today, with its BlackBerry Messaging product likely getting a value boost from the deal.

Despite the industry tidal waves, the deal still needs regulatory approval to become a reality. Even if the deal is terminated WhatsApp won’t walk away empty handed. The company is in line for a \$2 billion break-up fee—\$1 billion in Facebook Class A common stock and \$1 billion in cash—if the proceedings go south.

Facebook stock was down more than 2.5 percent as of 8:51 a.m. CT.

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[2] <http://www.valuwalk.com/2014/02/facebook-inc-fb-stock-opens-at-new-all-time-high/>

[3] <http://blogs.barrons.com/techtraderdaily/2014/02/19/facebook-to-buy-whatsapp-messaging-service-in-16b-cash-and-stock-deal/>

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