Facebook bets big on mobile with USD19bn WhatsApp deal

SAN FRANCISCO - Facebook is betting huge on mobile with an eye-popping cash-and-stock deal worth up to $19 billion for Internet Age smartphone messaging service WhatsApp.

The surprise mega-deal announced Wednesday bolsters the world's biggest social network -- which has more than 1.2 billion members -- with the 450-million-strong WhatsApp, which will be operated independently with its own board.



Focus on mobile

It fits with Facebook founder Mark Zuckerberg's focus on being at the centre of lifestyles in which billions of people around the world share whatever they wish over the Internet using smartphones or tablets.

"Facebook works harder than any other social site to keep people coming back," said Forrester analyst Nate Elliott.

"In the past year, they've focused much of that effort on mobile -- introducing Home and Paper, and upgrading both their Facebook and Messenger apps -- and this is another step towards keeping people engaged no matter where they are."

Facebook promised that WhatsApp would remain independent and said it served a real-time communication need, while Messenger was used more in the style of email between members of the social network.

WhatsApp is ideally suited to young people who increasingly prefer rapid-fire smartphone messaging to making calls or churning out email.

Reaching a wider audience

Facebook has been eager to keep the devotion of young users who set trends and carry tech habits into the future.

It is Facebook's biggest acquisition and comes less than two years after the California-based Internet star raised $16 billion in the richest tech sector public stock offering.

Zuckerberg said that WhatsApp -- a cross-platform mobile app that allows users to exchange messages without having to pay telecom charges -- was worth the steep price because its blistering growth around the globe has it on a clear path to hit a billion users and beyond.

"Services with a billion people using them are all incredibly valuable," Zuckerberg said while discussing the purchase price during a conference call with analysts.

The deal came from a chat Zuckerberg had with WhatsApp co-founder Jan Koum, whom he described as a "valuable thought partner" and friend of many years.

"Last Sunday evening, about 11 days ago, I proposed if we joined together that would help us really connect the rest of the world," Zuckerberg said.

"He thought about it over the course of the week, came back and said he was interested."

Silicon Valley-based WhatsApp started the year with 50 employees, most of them engineers, and the startup said that all of its stakeholders have approved the take-over.

Focus on growth



The purchase includes $12 billion in Facebook shares and $4 billion in cash. It calls for an additional $3 billion in restricted stock units to be granted to WhatsApp founders and employees that will vest over four years.

Koum, who joins Facebook's board under the deal, said: "WhatsApp's extremely high user engagement and rapid growth are driven by the simple, powerful and instantaneous messaging capabilities we provide."

The tie-up gives WhatsApp "the flexibility to grow and expand," he added.

Zuckerberg and Koum, who both took part in the conference call, did not discuss details about WhatsApp revenue, saying the focus for the foreseeable future would be on growth, not making money.

WhatsApp software is available for free, but after a year, users are asked to pay annual subscriptions of 99 cents each.

The acquisition represents likely the biggest-ever price for a tech startup, trumping the $8.5 billion paid for Skype -- which allows users to make voice and video calls over the Internet -- by Microsoft in 2011.

"The size of this deal is really massive and it will get people talking about a bubble," Greg Sterling at Opus Research told AFP.

Sterling said the deal is a risk for Facebook because "in social media, you have a flavour of the month, and next year we might have another app with extremely rapid growth."

"I think (the high price tag) comes from the frustration of not being able to buy Snapchat, and then there is the youth factor," Sterling added.

It remained unclear how Facebook planned to eventually make money from WhatsApp.

Roger Kay at Endpoint Technologies said WhatsApp has become one of the most popular mobile applications worldwide "because it allows you to message anybody anywhere for free."

"It's not obvious how they can get $12 billion out of this but it's been clear for a while that WhatsApp is very interesting. It reminds me a little bit of Skype," Kay said.

Source: AFP via I-NET Bridge

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