**FACEBOOK: Financial Ratios**

**Financial Ratios : Historial Comparaisons**

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial Ratios: Historical Comparison****(Citation)** |  |  |  |
|  |  |  |  |  |
|  | **2014** | **2015** | **2016** | **Assessment** |
| Liquidity Ratios |  |   |   |   |
|  Current Ratio | 9.40 | 11.25 |  11.97 |  P |
|  Quick Ratio | - | - | - | - |
|   |  |   |   |   |
| Asset Utilization Ratios |  |   |   |   |
|  Inventory Turnover | - | - | - | - |
|  DSI | - | - | - | - |
|  AR Turnover | 7.43 | 7.01 |  6.92 |  N |
|  DSO (ACP) | 49.13 |  52.07 |  52.75 |  P |
|  Fixed Asset Turnover | 0.47 | 0.65 |  0.90 |  P |
|  Total Asset Turnover | 0.31 |  0.36 |  0.43 |  P |
|   |  |   |   |   |
| Debt Management Ratios |  |   |  |   |
|  Debt Ratio | 0.10 |  0.11 |   0.09 |  P |
|  TIE | - | - | - | - |
|   |  |   |   |   |
| Profitability Ratios |  |   |   |   |
|  Gross Margin | 0.83 |  0.84 |  0.86 |  P |
|  Operating Margin | 0.40 |  0.41 |  0.52 |  P |
|  Profit Margin | 0.24 |  0.21 |  0.37 |  P |
|  BEP | 0.12 |  0.13 |  0.19 |  P |
|  ROA | 0.07 |  0.07 |  0.16 |  P |
|  ROE | 0.08 | 0.08 |  0.17 |  P |
|   |  |   |   |   |
| Market Ratios |  |   |   |   |
|  P/E  |  |  81.13 |  32.97 |  N |
|  P/CF |  | - | - | - |
|  M/B |  | - | - | - |

(Source: <https://finance.yahoo.com/quote/FB?p=FB>

http://finance.google.com/finance?q=NASDAQ%3AFB&fstype=ii&ei=XeuVWundDZqsmgHYqKq4Dg)

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial Ratios: Competitor Comparison** |  | **Case Year** |  2016 |
| **(Citation)** |  |  |  |
|  |  |  |  |  |  |
|   | **Facebook** | **Twitter** | **Alphabet** | **Industry** | **Assessment** |
| Liquidity Ratios |   |   |   |   |   |
|  Current Ratio |  11.97 |  7.97 |  6.29 |   |  S |
|  Quick Ratio |  - |  - |  15.56 |   |  W |
|   |   |   |   |   |   |
| Asset Utilization Ratios |   |   |   |   |   |
|  Inventory Turnover |  - |  - |  336.84 |   |  W |
|  DSI |  - |  - |  1.08 |   |  W |
|  AR Turnover |  6.92 |  3.89 |  6.34 |   |  S |
|  DSO (ACP) |  52.75 | 93.83 |  57.57 |   |  W |
|  Fixed Asset Turnover |  0.9 |  1.14 | 1.45 |   |  W |
|  Total Asset Turnover |  0.43 | 0.37 |  0.54 |   |  N |
|   |   |   |   |   |   |
| Debt Management Ratios |   |   |   |   |   |
|  Debt Ratio |  0.09 |  0.33 |  0.17 |   |  S |
|  TIE |  - |  - |   |   |  - |
|   |   |   |   |   |   |
| Profitability Ratios |   |   |   |   |   |
|  Gross Margin |  0.89 |  0.63 |  0.61 |   |  S |
|  Operating Margin |  0.52 |  -0.15 | 0.26 |   |  S |
|  Profit Margin |  0.37 |  -0.18 |  0.22 |   |  S |
|  BEP |  0.19 |  -340866/6870365=-0.05 |  0.14 |   |  S |
|  ROA |  0.16 |  -0.07 |  0.12 |   |  S |
|  ROE |  0.17 |  -0.10 |  0.14 |   |  S |
|   |   |   |   |   |   |
| Market Ratios |   |   |   |   |   |
|  P/E  |  32.97 |  - |  28.45 |   |  S |
|  P/CF |   |   |   |   |   |
|  M/B |   |   |   |   |   |

(Source: <https://finance.yahoo.com/quote/FB?p=FB>

<https://finance.yahoo.com/quote/TWTR?p=TWTR>

<https://finance.yahoo.com/quote/GOOGL-USD.SW?p=GOOGL-USD.SW>)

**Overall Assessment:**

|  |  |  |
| --- | --- | --- |
| **Category** | **Historical: 2015-2016** | **Competitor: 2016** |
| Liquidity | Positive | Neutral |
| Asset Utilization | Neutral | Weakness |
| Debt Management | Positive | Strength |
| Profitability | **Positive** | **Strength** |
| Market | Negative | Strength |

During the 2015-2017 period, Facebook has a strong financial statement. There is a positive trend on current ratio during period, which means that Facebook can pay off its debts as they due in the coming year. Facebook has an excellent credit on financial debt. Because Facebook never sells something, it has no inventory figures shows up on yahoo finance statement. Therefore, I cannot calculate quick ratio, inventory turnover ratio, and day’s sales in inventory ratio on asset utilization part. In asset utilization part, there are negative trend on account receivable turnover. The reason why the trend is negative, it is because there is less time the asset is turned over during the period. There is a short average time that Facebook must wait after making a credit sale to receive cash. For fixed asset turnover ratio and total asset turnover ratio, there is a slight increase on both. It shows that Facebook uses its plant, equipment, and other assets effectively. The debt ratio has a slight decrease first during 2015-2016, and then it has a minor increase during 2016-2017. All components in profitability ratios include gross margin ratio, operating margin ratio, profit margin ratio, basic earning power ratio, return on common equity ratio, and return on total asset ratio has positive trends. It reflects that the net result of all the financing policies and operating decisions are perfect during the period. The net profits are higher than before, and the cost of revenue are also higher than before, but the company uses materials more effectively. The market value ratio of Facebook, which relates the firm’s stock price to its earnings, cash flow, and book value per share. There is a significant negative trend on price/earnings ratio from 2015 to 2016, which determines there are less investors are willing to pay per dollar of reported profits.

During the 2015-2016 period, Facebook experienced positive trends on liquidity, debt management, and profitability ratios; however, its market ratio decreased. Facebook maintained its asset utilization ratio in 2015. Comparing with Facebook’s competitors, Facebook has strength on debt management, profitability, and market ratios. It seems like the possibility of investing Facebook by investors will be higher than its competitors. However, its competitors strong in asset utilization. Their liquidity ratio has neutral trends in 2015.

**Recommendations:**

Even though, comparing the P/E ratio of Facebook with its competitors’, Facebook has strength in recent years, Facebook still needs to focus on its performance because of low P/E ratios year after year. Facebook should renovate its cost structure by reducing some costs or adding some costs. The company needs to pay attention to the account receivable turnover by increasing sales or decreasing account receivable. The PE ratio keeps lower in recent years, which reflecting there are less investors who are willing to pay per dollar of reported profits. Facebook needs to strong its growth prospects and decrease the level of risk for investors to get into it. Facebook still needs to work on its asset utilization by reducing its assets to sales ratio.

**Balanced Scorecard**

|  |  |  |
| --- | --- | --- |
| **Perspective** | **Goal** | **Measurement** |
| **FINANCIAL** | Firm Growth & Profitability | Gross Margin>89% |
|  |  | Profit Margin>37% |
|  |  | Operating Margin>52% |
|  |  |  |
| **CUSTOMER** | Value Creation & Satisfaction | Customer Service rating  |
|  |  | Market share index |
|  |  |  |
|  |  |  |
| **INTERNAL BUSINESS PROCESSES** | Organizational Efficiency | New links, articles, or videos |
|  |  | Brand awareness |
|  |  |  |
|  |  |  |
| **LEARNING & GROWTH** (employees) | Climate that Supports Change, Innovation, and Growth |  |
| community | satisfaction | Increase engagement during weekdays and business hours |
| suppliers | satisfaction | Create more link based content than posts to increase engagement |
|  |  |  |

Summary: balanced scorecard shows the company’s future goals. The profit margin should higher than 37%, and the gross margin should higher than 89%. The overall customer service rating of Facebook is really low, just one star.

(Source: https://www.consumeraffairs.com/dating\_services/facebook.html?page=1#sort=recent&filter=5)