

# Why is Facebook worth US\$10bn?

By [Vinny Lingham](#)

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Last month, I made the “way out” prediction that [Facebook would be sold for US\\$10bn](#), probably to Microsoft. A couple of my readers asked for justification, and I basically gave the “this is war” approach – since then, I’ve given it further thought.



In this article, I will attempt to give a business perspective (as if I were running Facebook and trying to justify a value to buyers) on how to get to a US\$10bn valuation. Remember that Facebook has nearly 40 million registered users who share their most intimate details with Facebook (in a structured format), in [contrast to Google's 124 million users](#) (which it knows nearly nothing about in general – as many are casual searchers) and Yahoo's 127 million users, many of which Yahoo has some data about – however disparate.

Facebook currently earns around US\$150m/year in revenue with a reported US\$30m in profits. On a 1% yield (100 PE), given that it's a fast growing business, one could argue that it's worth US\$3bn, based on its existing website advertising and gift revenues.

## Value add

Now, how do we ramp up the other US\$7bn? Value add to the acquirer, of course – in my opinion, either Google or MSN (but let's not discount Yahoo, just yet). Let me just touch on Google/MSN/Yahoo very quickly to put things in perspective.

Google currently earns around US\$5 billion/annum in AdSense (third party advertising revenues). As a percentage of total revenues, it's roughly a third – so one could argue that the AdSense side of the business is worth an estimated US\$50 billion on valuation (as a percentage of Google's total market cap). I'm not sure what Google's market share for online advertising in the contextual space is, but it's probably something crazy like 50%+, globally (if someone knows, please comment). What makes Google so powerful? It's large distribution network of publishers, and specifically its global advertiser base.

MSN's [Content Ads](#) is similar to Google's Adwords/AdSense, except that Microsoft has gone after the ability to “boost” bid prices for audiences, based on demographic target, in addition to the contextual nature of the advertising. Google does not offer this functionality, as such, just yet.

## Similar system

Yahoo has a similar system to Google, with its Yahoo! Publisher Network. So, in short, Yahoo, Google and MSN have advertisers, and primarily contextual-based advertising systems (contextual means that the advertising served to readers is based upon what they're reading, not who they are – except for MSN).

Facebook has the data around users that MSN, specifically, needs to improve the ability for advertisers to target reader, regardless of which web pages they are reading. What is this worth to them? If we assume that if Facebook goes the direct route, and competes with Google/MSN/Yahoo for the contextual market, what would they have to do?:

1. Build a contextual advertising system (or partner)
2. Recruit web publishers and advertisers (or acquire someone like AdBrite, etc)
3. Create a more targeted version of AdSense/Content Ads/YPN – and serve more relevant advertising and compete with the big three.

If it executed the above, would it be fair to say, that within three years, it is possible to assume that Facebook could acquire a 10% market share of the contextual advertising market. The question is, what is that market worth? Well, from the earlier points above, probably an estimated US\$10 billion in revenues, and with revenue multiples of 10x, and if we're probably looking at Facebook generating at least US\$1 billion from Contextual Advertising, then the future value (looking forward three years), would be about US\$13 billion (US\$10 billion and US\$3 billion of on-site revenue).

Yes, ladies and gentlemen – I'm saying that Facebook probably has a net present value of US\$10 billion, based upon the fact that it could become a credible competitor to Google, Yahoo and MSN in the contextual advertising market. In fact, it's probably worth more if the titans got into a bidding war for it. Remember, if it gets acquired, specifically by MSN, the three-year period to build a user-targeted advertising system would be significantly shorter and would put pressure on Google AdSense and Yahoo Publisher Network with respect to product offering to web publishers.

My US\$10 billion Facebook valuation is based upon two things: a) future value still to be unlocked and b) strategic value to MSN/Google/Yahoo.

Time will tell...

## ABOUT THE AUTHOR

Born and bred in South Africa, having studied a BComm (Information Systems) at UCT and going on to complete an honours degree in Electronic Commerce from the University of South Africa, Vinny Lingham is respected as both a search marketing expert and inspirational entrepreneur the world over. Vinny has recently left incuBeta to pursue Lingham Capital, his new venture capital company, with investments in startup businesses such as Skyrove, a Wi-Fi Hotspot provider, and Synthasite, technology that was prototyped in incuBeta and spun out into a separate company. Synthasite is Lingham Capital's single biggest investment, and Vinny drives the company forward on a day to day basis, as the CEO. Read Vinny's blog at [www.vinnylingham.co.za](http://www.vinnylingham.co.za).

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