LUISS

**Degree course in Economics and Business**

Chair of Corporate Finance

# Stock Valuation and Price Fluctuations: the Meta and Twitter Case


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"The cowards never started and the weak died along the way. That leaves us, ladies and gentlemen. Us."

— **Phil Knight, Shoe Dog**

# ABSTRACT

This work has evaluated how Meta Platforms, Inc. (formerly Facebook) and Twitter are two of the largest and most influential social media platforms in the current digital market.

Analysis of the valuation and stock performance of Meta and Twitter in the context of their initial public offerings (IPOs) reveals several key factors that influence their valuation and price fluctuations: The EBITDA/sales ratio that translates into high margins before of depreciation, amortization and taxes, strong net margin performance and consistent upward revisions to sales projections by analysts.

Applying the Free Cash Flow to Capital (FCFE) method, it is estimated that Meta's intrinsic value is very close to its current price, with a Price/FCFE ratio of 23.02. This indicates that Meta's stock is undervalued compared to its competitors and the sector, making it attractive as an investment.

Unfortunately, a similar analysis could not be performed for Twitter because its financial reports are confidential as it is not publicly listed.

The valuation and performance of Meta and Twitter are influenced by a combination of factors related to their revenue streams, traffic metrics, customer base, profit margins, market trends, digital marketing strategies, payment systems and geographic location . Understanding and effectively managing these factors is key to optimizing the success of these digital businesses in a competitive online environment.

# 1 INTRODUCTION

## 1.1 Justification

The thesis aims to describe the existing relationships between fluctuations within the stock market, determined by social, political, economic variables and the effects and consequences that they can determine on the value of the securities issued, with special reference to the main technological giants of Social Networking Services - Meta (evolution of Facebook) and Twitter (now renamed X after takeover by new owner Elon Musk) - that issue securities and the evolution of their prices.

To do this, the work provides, first, a description of the digital market (characteristics, operation, intensity of competition) and the differences with respect to traditional markets; subsequently, the thesis continues with the analysis of the concept of Social Network and the strategic role that Social Network Services currently play, thanks to the digitization and diffusion of the Internet on a global scale.

The thesis also examines the issue of company valuation, considering that in the current financial scenario the estimate of the company's value - which can be contained in the term reputation - in addition to affecting the strategic and operational decisions of a company, constitutes a fundamental condition to access the credit market, acquiring resources that allow it to generate value and, consequently, improve productivity and competitiveness against the competition.

Finally, the case studies relating to the two giants of the social network Meta (evolution of Facebook) and Twitter will be analyzed, with special reference to the trading conditions of the securities issued and the factors that may influence their economic value for users, investors and stakeholders .

## 1.2 Research Question

The progressive expansion of the Internet, social networks and devices that allow the user to easily connect to the network (personal computers, tablets, smartphones, etc.) have radically transformed the financial market, introducing new "digital" investment tools and models and, at the same time, they have made it much easier and faster for traders in the securities sector to acquire a considerable amount of data and information on market trends in order to make more informed decisions about the investments they should support.

In this complex and dynamic scenario, in light of the analysis of the competitive dynamics that distinguishes digital markets, we will try to understand the factors and variables that can influence the returns of the securities of the giants of Social Networks such as Meta and Twitter and possibly erode their market power.

## 1.3 Objectives

### 1.3.1 General Objective

The general objective of "Stock valuation and price fluctuations: The Meta and Twitter Case", could be to analyze and evaluate the factors that influence the valuation and price fluctuations of these companies in the stock market.

### 1.3.2 Specific Objectives

Some specific objectives could be:

1. Analyze the financial statements of Meta and Twitter to determine their current and potential valuation.
2. Investigate and evaluate the macroeconomic and sectoral factors that influence the valuation and price fluctuations of these companies.
3. Identify and evaluate the internal factors of Meta and Twitter, such as business management, growth strategies, and capital structure, that affect their valuation and price fluctuations.
4. Compare and contrast the Meta and Twitter valuation models to determine their effectiveness and applicability in making investment decisions.
5. Propose recommendations for making investment decisions in Meta and Twitter, considering the risks and opportunities identified in the analysis.
6. Evaluate the impact of social networks on the valuation and price fluctuations of Meta and Twitter, considering the opinion of investors and analysts on social networks.
7. Analyze the relationship between the valuation and price fluctuations of Meta and Twitter with the metaverse and Web3 technology, considering the opinion of investors and analysts on social networks.

## 1.4 Methodology

To develop this work we are going to use two methodological tools that are described below:

### 1.4.1 Quantitative Analysis

Quantitative analysis is a methodology that is based on the use of numerical and statistical data to analyze and evaluate the valuation of Meta and Twitter shares, as well as price fluctuations over time. This methodology involves the collection and analysis of relevant financial data, such as financial statements, share prices, trading volume, profitability indicators and financial ratios of both companies.

To carry out quantitative analysis, various financial and statistical analysis tools can be used, such as spreadsheets, statistical analysis software, and financial modeling programs. These tools allow you to examine trends, correlations and patterns in Meta and Twitter financial data, which can help identify key factors influencing your valuation and performance in the stock market.

In addition to analyzing financial data, quantitative analysis may also involve applying financial valuation models to estimate the intrinsic value of Meta and Twitter shares. These models may include the discounted cash flow (DCF) method, the comparables method, and the multipliers method. The DCF method involves estimating a company's future cash flows and discounting them at an appropriate discount rate to determine their current value. The comparables method involves comparing the financial metrics of Meta and Twitter with those of other similar companies in the same sector to estimate their valuation. The method of multipliers involves multiplying a key financial metric, such as price/earnings or price/sales, by an appropriate multiplication factor to estimate the value of the stock.

Quantitative analysis may also include evaluating the performance of Meta and

Twitter in the stock market, using indicators such as price/earnings, price/sales, total shareholder return, and beta. These indicators can provide information about the return, risk and volatility of Meta and Twitter stocks, which can help investors make informed decisions about buying or selling stocks.

This methodology uses numerical and statistical data to analyze and evaluate the valuation of Meta and Twitter shares, as well as price fluctuations over time. Likewise, it involves the collection and analysis of relevant financial data, the application of financial valuation models and the evaluation of performance in the stock market. In addition to the above, it can provide valuable information on the factors that influence the valuation and performance of Meta and Twitter, which can help investors make informed decisions about buying or selling shares.

### 1.4.2 Case Study

A case study is a research methodology that consists of the detailed analysis of a specific case, in this case, the stock valuation and price fluctuations of Meta and Twitter. This methodology allows a deep understanding of the factors that impact the valuation of these companies, since financial reports, relevant news, market events and other factors that can influence their valuation are analyzed in depth.

To carry out a case study on the stock valuation and price fluctuations of Meta and Twitter, the following steps can be followed:

1. **Definition of the case**: The case study must be defined, that is, the company or companies that are going to be analyzed. In this case, it would be Meta and Twitter.

2. **Data collection**: All relevant information about companies should be collected, such as financial reports, relevant news, market events and other factors that may influence their valuation.
3. **Data analysis**: The information collected must be analyzed to identify trends, correlations and patterns that may influence the valuation of companies.
4. **Interviews with experts**: Interviews can be conducted with financial experts, market analysts or company managers to obtain a broader perspective on the topic.
5. **Interpretation of results**: The information collected and analyzed must be interpreted to reach conclusions about the factors that impact the valuation of Meta and Twitter shares.
6. **Presentation of results**: The results of the research must be presented in a clear and concise manner, using graphs, tables and other visual resources that facilitate the understanding of the results.

A case study on the stock valuation and price fluctuations of Meta and Twitter can provide an in-depth understanding of the factors that influence the valuation of these companies. In addition, it allows you to identify trends and patterns that can be useful for making informed investment decisions.

By examining financial records, pertinent news, market occurrences, and other influential aspects, one can have a comprehensive grasp of the variables that affect the valuation of the two companies.

## 1.5 Limitations

### 1.5.1 Methodological Limitations

Limits of this work may include a lack of up-to-date data, as the most recent article found in the search is dated 2024. Additionally, the methodology used in the search may have excluded some relevant sources, which could affect completeness and the validity of the results. Another potential limitation is the lack of diversity in the sources used, with most of them coming from news and social media websites. This could bias the results towards a particular perspective and not adequately reflect the complexity and diversity of opinions on the topic.

Another potential limitation is the lack of a representative sample in the case study, as the analysis is based on a small number of social media posts. This could affect the external validity of the study and limit the ability to generalize the results to a broader population. Furthermore, the study does not explicitly address possible differences in stock valuation and price fluctuations between Meta and Twitter, which could be an important limitation for the purpose of the work.

Finally, quantitative analysis also has its limitations, as it is based on the assumption that financial data and social media metrics are a complete and accurate representation of companies' valuation and performance. However, these data may be subject to errors, biases, and limitations in their collection and analysis, which could affect the validity and reliability of the results.

### 1.5.2 Contextual

The results of work on stock valuation and price fluctuations of companies such as Meta and Twitter and other companies in the same sector or with different characteristics can present challenges due to the uniqueness of each company and the particularities of the market in which they operate. This issue is further explored below:

1. **Diversity of Factors***:* Each company has a unique combination of factors that influence its valuation and price fluctuations. These factors may include capital structure, business strategy, market competition, economic and political situation, among others. Therefore, what affects the valuation of Meta and Twitter may not apply to other companies with different circumstances.

2. **Market Context***:* The environment in which companies operate can also vary significantly. For example, government regulations, market trends, consumer perception and competition may be different for each company, influencing its valuation and performance in the stock market.

3. **Business Strategies***:* The business strategies adopted by Meta and Twitter, as well as their ability to execute them, are unique and may not be replicable in other companies. These strategies may have a significant impact on stock valuation and price fluctuations, and may not be generalizable to other companies.

4. **Business Cycles***:* Business cycles and market conditions can vary between companies and sectors, influencing stock valuations and price fluctuations. What works for Meta and Twitter in a certain economic context may not be applicable to other companies in different conditions.

The results of a work on the valuation of the stock and price fluctuations of companies such as Meta and Twitter to other companies in the same sector or with different characteristics can be affected by the diversity of factors, the market context, business strategies and economic cycles that influences the valuation of stocks. It is important to keep these differences in mind when interpreting and applying the results to other companies or situations.

# 2 COMPETITION IN THE DIGITAL MARKET

## 2.1 Digital Market

In the context of the digital market, Meta (Facebook) and Twitter are two of the most important social networks, and their impact on the market is significant. Meta is a leading platform in the digital advertising market, with a wide range of tools and features that allow businesses to connect with their customers and promote their products and services. Meta's advertising platform is used by millions of businesses worldwide, and its targeting capabilities and reach are unmatched.

Twitter, on the other hand, is a real-time social network that is widely used for news, entertainment, and conversation. Twitter's unique features, such as hashtags and mentions, make it an ideal platform for businesses to engage with their customers and build brand awareness. Twitter's advertising platform also offers a range of targeting options, allowing businesses to reach their ideal audience.

In terms of marketing strategies, both Meta and Twitter offer a range of tools and features that businesses can use to connect with their customers and promote their products and services. For example, Meta's advertising platform allows businesses to create highly targeted ads based on demographics, interests, and behavior, while Twitter's advertising platform offers targeting options based on keywords, interests, and location.

Furthermore, the use of social networks for marketing purposes has become a fundamental tool for businesses, as it allows them to reach a wider audience and increase their brand awareness. Social networks have also become a space for interaction and communication between brands and their customers, allowing them to build relationships and improve customer loyalty.

Meta and Twitter are two of the most important social networks in the digital market, and their impact on the market is significant. Both platforms include a variety of tools and features that businesses can utilize to engage with their clients and advertise their products and services, making them indispensable tools for any business aiming to thrive in the digital market.

## 2.2 Social Media

### 2.2.1 The strategic role of social media services

The strategic role of social media services is to increase the visibility and reach of a brand or business, as well as to attract, convert, and retain customers. Social media platforms such as Facebook, Instagram, Twitter, and LinkedIn are essential tools for promoting and positioning brands and businesses in a wider audience. A strategic plan in social media consists of defining the objectives, establishing the strategies and tactics that will be implemented, and measuring and evaluating the results obtained.

The use of social media in digital marketing allows professionals to connect directly with their target audience, share relevant content, generate interactions, create a brand image, and build a loyal base of followers and customers. Social media platforms also offer the opportunity to increase brand visibility, generate traffic to a website, and create a community of followers.

Social media can be used in different stages of a marketing strategy, such as attracting users, converting them into leads, and retaining them as loyal customers. Social media also allows for two-way communication, which helps to strengthen the relationship with the audience and build brand loyalty. In addition, social media can be used to detect customer needs, offer personalized customer service, and monitor trends in the market.

Social media services play a fundamental role in marketing strategies, as they allow businesses to connect with their target audience, increase brand visibility, generate interactions, and build a loyal base of followers and customers. A strategic plan in social media is essential to achieve the objectives and measure the results obtained.

### 2.2.2 Interactions between Social Network Services and investor information processes

Social networks, such as Meta and Twitter, play a strategic role in communication and relations with investors, since they allow companies to interact with them in real time, share relevant information and receive feedback. Social media services can be used to monitor and analyze investor sentiment regarding the company and its performance in the market.

A recent study analyzed 86,565 social media posts related to the metaverse and found that 53% of them expressed positive feelings, 33% were neutral, and only 14% were negative.

This demonstrates the potential of social media as a source of information and sentiment analysis for investors.

In addition, social networks offer analysis and monitoring tools that allow companies to track user interactions and engagement with their brand and content. These tools can be used to identify trends and opportunities in the market and adapt the communication and investor relations strategy accordingly.

Social networks have a crucial role in facilitating communication and fostering connections with investors. They enable companies to engage with investors in real-time, exchange pertinent information, and obtain valuable feedback.

# 3 BUSINESS VALUE CONCEPT

## 3.1 The Concept of Value: General Aspects

The concept of value in a company is a multidimensional term that refers to a company's ability to create and maintain a competitive advantage in the market, generate sustainable cash flows and increase shareholder value. The value of a company can be measured in different ways, including its market capitalization, its book value, its accounting value and its economic value.

The creation of value in a company is based on the ability to generate and maintain a competitive advantage in the market. This competitive advantage can be achieved through product differentiation, cost leadership, technological innovation, service quality, and customer loyalty. A company with a sustainable competitive advantage can generate higher revenues and cash flows, increasing its value in the market.

Book value is a measure of the investment made in a company and refers to the value of the assets and liabilities recorded on the company's balance sheet. Book value is a measure of the value of a company's tangible and intangible assets and liabilities, and is calculated by subtracting liabilities from assets. Economic value is a measure of the present value of a company's expected future cash flows, and is calculated using financial valuation techniques.

Creating value in a company can also be achieved through effective management of resources and maximization of operational efficiency. A company that effectively manages its resources, such as human capital, technological capital and financial capital, can increase its productivity and reduce its costs, which increases its value in the market.

Furthermore, value creation in a company can be achieved through product innovation and differentiation. A company that innovates and differentiates its products can gain a competitive advantage in the market, which increases its value in the market. Innovation can also help a company adapt to changes in the market and technological trends, increasing its ability to create and maintain a competitive advantage.

Value in a firm pertains to the organization's capacity to establish and uphold a competitive edge in the market, generate enduring cash flows, and enhance value for shareholders. The value of a company can be measured in different ways, including its market capitalization, its book value, its accounting value, and its economic value. The latter in a company can be achieved through effective resource management, maximization of operational efficiency, innovation, and product differentiation.

## 3.2 Value Creation Process

The value creation process in a company is a strategic approach that seeks to maximize the benefits and advantages for the company's stakeholders, including shareholders, customers, employees and society in general. Value creation has become a fundamental aspect for the success and sustainability of companies in an increasingly competitive and dynamic business environment.

The value creation process is based on the identification and satisfaction of the needs and desires of stakeholders, which implies a deep understanding of their expectations and preferences. Through value creation , companies can improve their competitiveness , increase their market share, improve their reputation and ensure their long-term growth .

Value creation can be achieved through different strategies and tactics, including innovation, differentiation, operational efficiency, quality improvement and customer satisfaction, among others . Choosing the appropriate strategy depends on the analysis of the opportunities and threats of the business environment, as well as the strengths and weaknesses of the company.

Innovation is one of the most important strategies for creating value. Innovation can take different forms, including introducing new products or services, improving operational processes, adopting new technologies, and creating new ways of engaging with customers. Innovation allows companies to differentiate themselves from the competition, satisfy customer needs and wants, and improve operational efficiency.

Differentiation is another important strategy for value creation. Differentiation involves creating a unique and differentiated value proposition that adapts to customer needs and wants. Differentiation can be achieved through quality service, personalization, convenience and customer experience, among others.

Operational efficiency is a key strategy for value creation. Operational efficiency involves optimizing company processes and operations to reduce costs and improve quality. Operational efficiency allows companies to improve their competitiveness, increase their market share and improve their profitability.

Quality improvement and customer satisfaction are also important aspects of value creation. Quality improvement and customer satisfaction involve creating high-quality products and services that meet customer needs and wants. Improving quality and customer satisfaction can be achieved through improving production processes, training staff, improving customer service, and measuring and tracking customer satisfaction.

Value creation also involves considering the expectations and preferences of shareholders, employees and society in general. Shareholders expect a return on their investment, so value creation involves maximizing profits and long-term growth of the company. Employees expect fair remuneration, development opportunities and a positive work environment, so creating value involves creating a positive work environment, investing in employee development and improving working conditions.

Society in general also expects companies to contribute positively to society and the environment. Creating value involves considering the expectations and preferences of society at large, which may include improving quality of life, reducing environmental impact and contributing to the local community.

The value creation process in a company is fundamental to its success and sustainability in an increasingly competitive and dynamic business environment. The creation of value involves the generation of benefits and advantages for the company's stakeholders, including shareholders, customers, employees and society in general. Value creation can be achieved through the different strategies quoted above among others. Choosing the appropriate strategy depends on the analysis of the opportunities and threats of the business environment, as well as the strengths and weaknesses of the company.

### 3.2.1 Importance of Value Creation

Value creation is a fundamental process for the long-term success and sustainability of a company. Through value creation, a company can differentiate itself from the competition, attract and retain customers, maximize its profitability and generate a positive impact on society.

Differentiation from the competition is a key factor in the value creation process. By offering unique, high-quality products or services, a company can stand out desde its competitors and attract more customers. Additionally, differentiation can help a company stay at the forefront of its industry and adapt to changes in the market.

Customer attraction and retention is another important factor. By meeting customer needs and wants, a company can increase its customer base and improve customer loyalty. Additionally, customer satisfaction can lead to positive recommendations and increased visibility in the market .

Maximizing profitability is a key objective in the value creation process. By increasing operational efficiency, reducing costs, and improving the quality of products or services, a company can increase its revenue and maximize its profitability. Furthermore, maximizing profitability can help a company invest in its growth and maintenance its position in the market.

The positive impact on society is ,nowadays, an increasingly important aspect in the value creation process. By being socially responsible and contributing to society, a company can improve its reputation and attract more customers. Additionally, the positive impact on society can lead to greater customer loyalty and better brand perception.

Value creation is a fundamental process for the long-term success and sustainability of a company. By differentiating itself from the competition, attracting and retaining customers, maximizing profitability and generating a positive impact on society, a company can increase its competitiveness, improve its position in the market and ensure its long-term growth.

### 3.2.2 Stages of the Value Creation Process

1. **Identification of Opportunities**: the first stage of the value creation process involves identifying opportunities to improve operational efficiency, develop new products or services, expand markets or improve the customer experience. This stage requires a detailed analysis of the business environment and the identification of areas for improvement and growth.
2. **Strategy Development**: once opportunities are identified, the company must develop clear and effective strategies to capitalize on them. This may involve implementing new technologies, improving internal processes, expanding into new markets, or

investing in research and development.

3. **Implementation of Actions**: the next stage consists of implementing the necessary actions to carry out the defined strategies. This may involve allocating resources, training staff, communicating effectively, and monitoring results.

4. **Measurement and Evaluation**: it is crucial to measure and evaluate the results obtained from the implemented actions. This makes it possible to identify the impact of strategies on value creation, adjust actions as necessary and ensure continuous improvement in the value creation process.

### 3.2.3 Factors Influencing Value Creation

The factors that influence the value creation process in a company are diverse and cover financial, operational and strategic aspects. Based on the resources provided , some of the key factors that impact value creation are:

1. **Finance Indicators** : factors such as return on assets, return on equity, net profit ratio, contribution margin and EBITDA are essential to evaluate the profitability and risk of a company.

2. **Ability to Generate Liquidity**: the ability of a company to generate liquidity, its turnover volume, human resources, the level of equity and its market participation are determined factors in the creation of value.

3. **Finance Statements** : understanding internal and external financial statements, which include tangible assets, intangible assets and liabilities, is essential to evaluate the company's financial situation and its value creation potential.

4. **Future Commercial Profitability**: considering aspects such as employment contracts, agreements with clients and suppliers, loans and other long-term obligations is crucial to evaluate the future commercial profitability of the company.

5. **Business Environment**: external factors such as the stock market, the country's economic situation, sector projections and other factors in the business environment influence the valuation and creation of value of a company.

These factors, among others, are essential to understand and enhance the value creation process in a company, since they directly impact its profitability, competitiveness and long-term sustainability.

The value creation process is a fundamental element in modern business management. By identifying opportunities, developing effective strategies, implementing concrete actions and measuring results, companies can generate significant benefits for their stakeholders and ensure their competitive position in the market. Value creation not only drives the growth and profitability of the company, but also contributes to the sustainable development and well-being of society as a whole.

### 3.3 Valuation of the Company for the Purposes of the Initial Public Offering

The valuation of a company for the purposes of an initial public offering (IPO) is a complex process that involves several steps and considerations. The main goal of the valuation process is to determine the fair market value of the company's shares, which will be used to set the IPO price.

### 3.3.1 The Valuation Process

The valuation process typically involves several methods, including:

1. **Discounted Cash Flow (DCF) Method**: this method estimates the value of a company by discounting its future cash flows to the present. The key inputs into the DCF model are the discount rate and the terminal value.

2. **Comparable Company Analysis (CCA) Method**: this method values a company by comparing it to similar companies. The key inputs into the CCA method are the comparable companies, the valuation multiple, and the adjustments.

3. **Pre-Money Valuation Method**: this method values a company based on the amount of money that has been invested in it. The key inputs into the pre-money valuation method are the pre-money valuation and the post-money valuation.

4. **Economic Valuation Method**: this method uses mathematical models with various parameters like the value of assets, liabilities, residual income, debts, etc., to value the IPO.

5. **Price-to-Earnings (P/E) Multiple Method**: this method compares a company's market capitalization to its annual income.

6. **Relative Valuation Method**: this method values a company by comparing it to its competitors.

7. **Discounted Cash Value-Based Valuation Method**: this method considers the future performance, cash-flows, revenue, and business investments.

8. **Absolute Valuation Method**: this method uses Discounted Cash Flow (DCF) analysis in order to measure and assess a company's wealth.

### 3.3.2 Factors Considering

The valuation process also considers several factors, including:

1. **Company's financial performance over the past few years:** the financial performance of the company over the past few years is a key factor in determining its valuation. Metrics like revenue growth, profitability, cash flow, and return on capital are analyzed to assess the company's financial health and growth trajectory.

2. **Share market trends:** the overall trends in the stock market, such as market sentiment, volatility, and performance of similar companies, can impact the valuation of the IPO. If the market is bullish, investors may be willing to pay a higher price for the shares.

3. **Number of stocks issued in an IPO:** the number of shares being offered in the IPO can affect the valuation. A larger offering may be perceived as a sign of confidence by the company and its underwriters, but it also increases the supply of shares available to investors.

4. **Potential for growth:** the company's growth prospects, such as its market opportunity, competitive position, and ability to execute its business plan, are important factors in determining its valuation. High-growth companies tend to command higher valuations.

5. **Demand for shares:** the level of investor demand for the company's shares can influence its valuation. If there is strong demand from institutional and retail investors, the company may be able to price its shares at a higher level.
6. **Peers in the industry:** the valuation of the company's peers in the same industry is often used as a benchmark for its own valuation. Factors like revenue, profitability, and growth rates of comparable companies are analyzed to determine a reasonable valuation range for the IPO.
7. **Current market conditions:** the overall state of the economy and financial markets can impact the valuation of the IPO. If market conditions are favorable, with low interest rates and strength investor appetite for risk , the company may be able to achieve a higher valuation.
8. **Expected future growth of the company:** The company's projected future growth , based on its business plan and market opportunity , is a key factor in determining its valuation . The higher the expected growth rate , the higher the valuation.
9. **Perceived riskiness of the company:** the perceived risks associated with the company, such as its business model, competitive landscape, and management team , can impact its valuation . Riskier companies may be valued at a discount compared to less risky peers.
10. **SEC filing fees :** the fees associated with filing the IPO registration statement with the SEC are a minor factor in the overall valuation process.

The valuation of a company for the purposes of an IPO is a complex process that requires careful consideration of these factors and methods . The goal is to determine the fair market value of the company's shares, which will be used to set the IPO price.

### 3.3.3 The Concept of Reputation and Web Reputation

The concept of reputation, both in general and in the context of the web, is a fundamental aspect of how individuals and businesses are perceived by others. Reputation refers to the overall opinion or perception that others have about a person, organization, product, or service based on their past actions, behavior, and interactions. It is a reflection of trust, credibility, and reliability.

In the digital age, web reputation has become increasingly important as more interactions and transactions take place online. Web reputation specifically refers to how an individual or business is perceived based on their online presence, activities, and interactions. It encompasses factors such as online reviews, ratings, social media presence, search engine results, and overall digital footprint.

Developing a positive web reputation involves actively managing and monitoring how one is perceived online. This includes:

- **Building Trust and Credibility**: by consistently delivering high-quality products or services that meet customer expectations and needs, businesses can build trust and credibility online. Positive reviews, ratings, and testimonials from satisfied customers also play a crucial role in enhancing web reputation.
- **Transparency and Communication**: maintaining open and transparent communication with customers is essential for a positive web reputation. Being

honest about actions, intentions, and policies helps build trust and fosters positive relationships with customers.

- **Customer Feedback and Engagement**: actively seeking feedback from customers, listening to their concerns, and taking steps to address issues are key components of managing web reputation. Engaging with customers, responding promptly to inquiries and feedback, and going the extra mile to exceed expectations can help improve reputation.
- **Consistent Brand Image**: consistency in brand identity, messaging, and design elements across online channels is important for a strong web reputation. Users value a consistent brand image that reflects reliability and professionalism.
- **Addressing Negative Feedback**: negative feedback or reviews can impact web reputation significantly. It is crucial to acknowledge mistakes, address shortcomings, and take proactive steps to resolve issues. Monitoring online mentions and addressing negative comments professionally can help mitigate the impact of negative feedback.

The reputation, both offline and online, is a valuable asset that can influence trust, credibility, and success. Developing a positive web reputation involves a combination of delivering quality products or services, engaging with customers, seeking feedback, maintaining transparency, and actively managing online interactions to build trust and credibility in the digital space.

# 4 CASE STUDIES

## 4.1 The Factors that influence the Performance of Values and Prices in the Digital Market

The factors that influence the performance of values and prices in the digital market are multifaceted and can vary based on the specific context and industry. Drawing from the provided sources, here are some key factors that influence the performance of values and prices in the digital market:

1. **Revenue Streams**: the revenue streams of a digital business play a significant role in determining its value and pricing. Factors such as the diversity of revenue sources, growth potential, and stability of revenue streams can impact the overall performance and valuation of the business.

2. **Traffic Metrics**: the volume and quality of traffic to a digital business, including website visitors, social media followers, and email subscribers, can influence its value and pricing. Higher traffic metrics often indicate a larger audience and potential customer base, which can positively impact the performance of the business.

3. **Customer Base**: the size, engagement, and loyalty of the customer base are crucial factors in determining the value and pricing of a digital business. A strong and loyal customer base can lead to recurring revenue, positive word-of-mouth marketing, and increased brand value, all of which contribute to the performance of the business.

4. **Profit Margins**: the profit margins of a digital business, which reflect the

efficiency of its operations and the profitability of its products or services, are key indicators of its performance and value. Higher profit margins generally indicate a healthier and more sustainable business model, which can positively impact its pricing and valuation.

5. **Market Trends**: market trends, including changes in consumer behavior, technological advancements, and competitive landscape, can significantly influence the performance of values and prices in the digital market. Businesses that can adapt to and capitalize on market trends are more likely to succeed and maintain competitive pricing and valuation.

6. **Digital Marketing and Payment**: factors related to digital marketing strategies, such as customer acquisition costs, conversion rates, and return on investment, can impact the performance of values and prices in the digital market. Effective digital marketing campaigns and payment systems can drive customer engagement, sales, and overall business performance.

7. **Geographic Location**: the geographic location of a digital business can also affect its performance and pricing. Different regions may have varying levels of competition, consumer behavior, and regulatory environments, which can influence the value and pricing strategies of digital businesses.

The performance of values and prices in the digital market is influenced by a combination of factors related to revenue streams, traffic metrics, customer base, profit margins, market trends, digital marketing strategies, payment systems, and geographic location. Understanding and effectively managing these factors are essential for optimizing the performance and success of digital businesses in a competitive online environment.

## 4.2 The Meta Case

Meta was founded in 2004 by Mark Zuckerberg, Eduardo Saverin, Dustin Moskovitz and Chris Hughes. The company's mission is to give people the power to share and make the world more open and connected. Over the years, Meta has become one of the largest and most popular social media platforms in the world. It now has over 2 billion monthly active users and is available in over 150 languages.

Meta Platforms, Inc. is specialized in online social networking services. Net sales are broken down by activity as follows:

- exploitation of social media, messaging, photo and video sharing platforms (98.6%): exploitation of Facebook, Instagram, Messenger, Threads and WhatsApp platforms (3.98 billion monthly active users in 2023);
- sale of virtual and augmented reality products, software and devices (1.4%): virtual reality headsets (Meta Quest), connected screens (Facebook Portal), wearable devices, etc.

Net sales in 2023 are broken down by source of income into advertising spaces (97.5%) and others (2.2%). Net sales are distributed geographically as follows: United States and Canada (39.2%), Asia-Pacific (26.8%), Europe (23.1%) and others (10.9%). On 31 December 2023, the number of employees was approximately 69,329.

In addition to being a social media platform, Meta is also a powerful tool for businesses and organizations of all sizes. With over 1.5 billion daily active users on the site, Meta provides businesses with a large potential audience for their products and services.

The Meta company's stock price has been on a roller coaster ride in recent years. While the stock price hit an all-time high of $378.69 per share in September 2021, it fell to a low of $90.79 per share in November 2022.

The following graph shows the values corresponding to the last year of movement in the value of the shares.

*Source: Investing.com 2024*

Some analysts believe Meta faces increased regulatory scrutiny, which could hurt the company's results. Others believe the changes will be positive for the company in the long term. Only time will tell how these changes will affect Meta's stock price.

### 4.2.1 Relationship Price-FCFE Historical

The relationship shown below of the price of the company actions regarding cash flow free on capital is the cash valuation indicator of stockholders' equity.

**Meta Platforms Inc.**
**P/FCFE, calculation, comparison with benchmarks**

| | Dec 31 2023 | Dec 31 2022 | Dec 31 2021 | Dec 31 2020 |
|---|---|---|---|---|
| Number of common shares outstanding | 2,549,405,106 | 2,592,639,548 | 2,721,941,960 | 2,847,669,951 |
| **Selected financial data (US$)** | | | | |
| Free cash flow to equity (FCFE) (in millions) | 51,465 | 28,360 | 38,439 | 23,028 |
| FCFE per share | 20.19 | 10.94 | 14.12 | 8.09 |
| Share price | 474.99 | 188.77 | 237.76 | 265.00 |
| **Valuation ratio** | | | | |
| **P/FCFE** | **23.53** | **17.26** | **16.84** | **32.77** |
| **Reference** | | | | |
| **P/ FCFECompetitors** | | | | |
| Alphabet Inc. | 25.65 | 22.91 | 29.75 | 26.58 |
| Comcast Corp. | 12.89 | 12.26 | 27.57 | 18.17 |
| Netflix Inc. | 35.64 | 176.91 | — | 81.38 |
| Walt Disney Co. | 55.51 | — | — | 18.20 |
| **P/ FCFEsector** | | | | |
| Media and entertainment | 24.75 | 23.67 | 29.77 | 27.24 |
| **P/ FCFEindustry** | | | | |
| Communication services | 21.97 | 31.82 | 26.52 | 20.51 |

Source: https://es.stock-analysis-on.net/NASDAQ/Empresa/Meta-Platforms-Inc/Valoracion/Precio-sobre-FCFE

Cash flow free to capital is the cash flow available to shareholders of Meta Platforms Inc. after they have been paid all the expenses operating costs , interest and principal payments and the investments necessary in working and fixed capital have been done.

By 2023 we can do this chart summary which shows the Free Cash Flow to already consolidated capital, and we can see it is very close to the (approximate) values presented in the previous table:

**Meta Platforms Inc.**

**P/FCFE, current**

| | |
|---|---|
| Number of common shares outstanding | 2,536,534,191 |
| **Selected financial data (US$)** | |
| Free cash flow to equity (FCFE) (in millions) | 51,465 |
| FCFE per share | 20.29 |
| Current share price (P) | 467.05 |
| **Valuation ratio** | |
| **P/FCFE** | **23.02** |
| **Reference** | |
| **P/ FCFECompetitors** | |
| Alphabet Inc. | 31.20 |
| Comcast Corp. | 10.64 |
| Netflix Inc. | 40.30 |
| Walt Disney Co. | 59.54 |
| **P/ FCFEsector** | |
| Media and entertainment | 27.30 |
| **P/ FCFEindustry** | |
| Communication services | 24.06 |

Source: https://es.stock-analysis-on.net/NASDAQ/Empresa/Meta-Platforms-Inc/Valoracion/Precio-sobre-FCFE

Although the relationship is very close to that presented by the industry in general, with respect to that of the sector it is strongly higher, which is why its attractiveness as an investment is quite high because the company is strongly undervalued.

We once again note that unfortunately this analysis cannot be carried out with company “X” (formerly Twitter) because it is not listed on the stock market, which is why its financial reports are confidential and are not open to the public.

### 4.2.2 Strengths

- The company's EBITDA/sales ratio is relatively high and translates into high margins before depreciation, amortization and taxes.

- Superior performance net margins.
- Thanks to a solid financial situation, the company has significant investment margin.
- Over the past year, analysts have regularly revised upward their sales forecasts for the company.
- Analysts have steadily raised their revenue expectations for the company, offering good prospects for the current year and the coming years in terms of revenue growth.
- Over the last year, analysts covering the stock have revised their EPS expectations higher significantly.
- Analysts have supported the positive development of the Group's activities by systematically adjusting their earnings per share forecasts upwards.
- Analysts are positive on the stock. The average consensus is to buy or overweight the stock.
- The average price target of analysts interested in the file has been revised upwards significantly in the last four months.
- Consensus analysts have significantly revised their opinion on the company in the last twelve months.
- The group usually publishes optimistic results with big surprises.

#### 4.2.3 Weak points

- In terms of multiple earnings, the firm is among those relatively well valued by the market.

- Based on current prices, the company has particularly high valuation levels.
- Relative to the value of its tangible assets, the company's valuation appears relatively high.
- The company's valuation is especially high considering the cash flows generated by its business.
- The company pays few or no dividends and therefore has little or no return.

4.2.4 Financial analysis of the last year

- ***Income and Profitability****:*
    - Meta's total revenue in the last four quarters (Q1 2023 to Q4 2023) amounted to $151,901 million
    - Operating profit margin remained relatively stable at around 35-40% during this period
    - Net profit margin was 15-20%, indicating solid profitability
- ***Financial situation****:*
    - At the end of Q4 2023, Meta had $153,168 million in net worth and $76,455 million in total liabilities
    - The debt-to-equity ratio was low, around 0.5, reflecting a conservative capital structure
    - The current liquidity ratio remained above 2, indicating a good ability to

meet its short-term obligations.

- ***Cash flows****:*

    - Meta generated strong operating cash flows in the last four quarters, totaling $71,113 million

    - Investing cash flows were negative due to infrastructure investments and acquisitions, while financing flows were mixed

    - Overall, Meta increased its cash and equivalents by $27,231 million during the period

Over the past twelve months, Meta has maintained solid financial performance over the past twelve months, with stable revenues and profitability, a healthy financial position, and robust cash flow generation. However, future projections and the impact of factors such as competition and regulation must be closely monitored.

#### 4.2.5 Share profitability analysis

The profitability analysis of Meta shares in the last year shows a positive performance and a significant recovery in the value of the shares. Throughout the year, the following key points were observed:

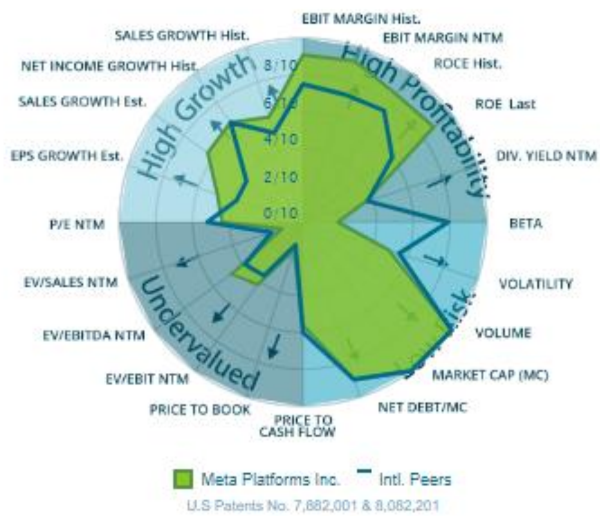
- ***Earnings Per Share (EPS) Growth****:* in the latest quarter, Meta's earnings per share were $4.71, beating the estimate of $4.32 by 9.02%. This increase in earnings per share indicates solid performance for the company.

- ***Upward Revision of Sales and Earnings Forecast****s:* over the past year, analysts have regularly revised upward their sales and earnings forecasts for Meta. This positive trend in revenue and earnings expectations reflects good financial performance for the company.

- ***Growth Outlook**:* Meta shares are expected to continue a more moderate upward progression, following a significant recovery in value. This suggests optimism about the company's growth potential.

Meta's stock performance analysis over the past year shows an increase in earnings per share, an upward revision to sales and profit forecasts, and positive growth prospects. These indicators suggest solid performance and a recovery in the value of Meta's shares in the analyzed period.

The Growth–Profitability–Risk–Value Graph




*Source:Infrontanalytics.com/fe-ES/62396NU/Facebook-Inc-/gprv 2024*

## 4.3 The Twitter Case

### 4.3.1 Financial Analysis of the Last Year

To perform a financial analysis of Twitter in the last year, the following key points can be considered based on the information provided in the search results:

- ***Income and Profitability***:
  - Twitter has seen revenue growth over the last year, with an increase of 36.63% in 2021 compared to the previous year.
  - Earnings per share (EPS) has shown positive growth, going from 0.22 in 2020 to 1.34 in 2023.
  - The Price-Earnings Ratio (PER) has varied, being 195.3 in 2021 and decreasing to 39.94 in 2023, indicating an improvement in the stock's valuation.
- ***Financial situation***:
  - Twitter's financial structure has remained stable, with growth in revenue and an increase in EBITDA in 2022, although with a slight decrease in 2023.
  - The company has demonstrated revenue growth and improved profitability, suggesting a strong financial position.
- ***Cash flows***:
  - Twitter's operating cash flows have varied over the last year, with a 22.48% growth in revenue and a 2.47% decline in EBITDA in 2023.

Despite some fluctuations, the company has managed to maintain positive cash flow generation, indicating good financial management.

Twitter has shown positive financial performance over the past year, with revenue growth, improved profitability, and a stable financial position. Despite some changes in financial indicators, the company has managed to maintain a solid position in the market and has demonstrated continued growth potential.

## 4.4 General considerations

When comparatively analyzing the valuation of Meta and Twitter shares in the last year, the following can be considered:

### 4.4.1 Revenue Growth and Profitability:

- Meta has experienced significant growth in its revenue and profitability in the last year, with an annual net profit of 69% and a business volume of $134,902 million in 2023.
- Twitter has also shown revenue growth, with a 36.63% increase in 2021 compared to the previous year, and positive earnings per share.

### 4.4.2 Future perspectives:

- Meta has optimistic forecasts for 2024, with revenue estimates between $34.5 billion and $37 billion and a focus on strengthening itself in Artificial Intelligence.
- Twitter has also presented good growth prospects, with analysts revising upward their sales and profit forecasts for the company.

### 4.4.3 Profitability and Valuation:

- Meta has shown growth in profitability and improvement in share valuation, with a 9.02% increase in earnings per share in the last quarter.

- Twitter has been rated positively by analysts, with solid fundamentals and a mix of growth, profitability and favorable debt.

#### 4.4.4 DFC analysis

The projection of these cash flows, discounted at an appropriate discount rate (WACC), will allow us to have an approximation of the company's value and the value of its shares, once net debt is subtracted.

If we look at these forecasts, despite their moderate growth, they are still far from what would be considered optimal data for the company.

| | FORECAST (MEAN) | | |
|---|---|---|---|
| | FY Dec-22 | FY Dec-23 | FY Dec-24 |
| FREE CASH FLOW | 14.843 | 11.680 | 20.438 |
| FREE CASH FLOW PER SHARE | 6,1 | 4,4 | 8,8 |

The stock price is also affected by the increase in interest rates and the increase in the expected return for the shareholder, two variables that allow the calculation of the cost of capital or WACC.

As the markets also have this same information, Meta's shares have corrected their value, causing a loss of more than 65% since the beginning of the year ($324.17 - $108.7).

To break this trend, Meta will have to inevitably act on two controllable variables: the increase in its sales and/or the reduction of its operating costs. For the moment, this loss of competitiveness has forced the company to announce job cuts that will affect 13% of its workforce.

Finally, I must emphasize that in the face of the risks and challenges it faces, it would be expected that the reference shareholders would request the replacement of some members of the board of directors, as already happened last May. But the final word belongs to Mark Zuckerberg , chairman of the board and CEO of the company. Thanks to the characteristic of the issued "*dual class*" shares, Mr. Zuckerberg owns 58% of the voting rights, with only 14% of the shares in his possession.

Twitter's rating has been seen affected negatively from that the company was delisted from the stock market in 2022 after be acquired by Elon Musk. Some of the main issues that they have impacted on Twitter's rating are:

- **$13 billion debt**: Twitter contracted a debt of almost $12,000 million with several banks to finance his buys by Musk. However, the company has lost further of 50% of its value from the acquisition of the tycon, and this puts the payment of this at risk debt .
- **Revenue drop**: Twitter 's revenue has diminished approximately 40% since Musk's acquisition , going from $44 billion to just $3 billion annual . This is due to the flight of advertisers and the fall 13 % in the number of visits to the platform .
- **Assessment $20 billion internal**: in March 2023, Twitter valued internally the company in only $20,000 million , less than half of the $44,000 million that Musk paid by her in October 2022.
- **Layoffs and changes chaotic**: layoffs of 50% of the workforce and the changes in the content moderation policies under Musk's leadership they have generated instability and scared away advertisers.

In short , the debt acquired for purchase, the drop in income, the decline assessment internal and changes chaotic they have shocked negatively in Twitter's rating since which was delisted in 2022. The company faces serious liquidity problems that threaten his future .

# 5 CONCLUSIONS

Below are some conclusions that can be drawn from the analysis of Meta and Twitter's stock valuation and price fluctuations.

First, we must assess that stock valuation is a complex process and Meta and Twitter's stock valuation has been influenced by a variety of factors, including revenue growth, profitability, future prospects, and overall company valuation.

*Profitability* is an important indicator for evaluation purposes: the profitability of Meta and Twitter has been an important parameter for the valuation of their shares. Both companies have shown growth in profitability, which has contributed to a higher valuation of their shares.

*Future prospects* are key: both companies have presented good growth prospects, which has contributed to a higher valuation of their shares.

*Information managemen*t is important: both companies have come under fire for their information management and transparency regarding their operations and finances.

*Competition* is crucial: both companies are in a constantly evolving market and must compete with other companies to maintain their position in the market.

*Innovation* is key: the two digital markets giants have invested in innovation and technology to maintain their market position and improve their valuation.

*Reputation* is important: the two companies have come under fire for their reputations and information management.

In the end, we can conclude that stock valuation is an ongoing process, Meta and Twitter's stock valuation is a continuous procedure and price fluctuations are normal, depending on changes in the market, the economy, and news about the company.

Nonetheless, we must not forget that stock valuation is subjective and may vary depending on the perspective and criteria used. Analysts and investors may have different opinions on the valuation of these companies' shares.

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