



Appraisal Economics Inc.
Valuation and Economic Consulting Services

SOCIAL MEDIA VALUATION AND THE VALUE OF A USER



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Overview

What is a social media website worth? What are you worth to these sites and companies? The answer might surprise you. Understanding social media valuation is multi-faceted. Determining the worth of a company based on social media applications where people simply share their lives in various ways is easier said than done. Users are giving away personal information every day, and that information is valuable on multiple and varying levels.

Social Media's Unique Valuation

Like any company, the valuation of a social media site is determined by each company's ability to generate revenue. Many social networking sites accumulate income from advertisers, but others like LinkedIn, for example, rely on unique models of valuation based on pure functionality or the worth of virtual goods and services. The final number is determined by knowing how much advertisers will pay per user, what users will pay for premium services, and how much revenue is brought in from other platforms like e-commerce.



For investors and financial advisors to agree upon the valuation of a social media site, they must evaluate the reasons why advertisers spend so much money on each site. It all comes down to the user. When a social media company like Facebook or Twitter goes public, investors want to know what each user is worth to particular brands and media outlets. The information users provide on a social media site is so valuable because this data used to take years to collect and extrapolate, and some of that data was previously untouchable. The best part is that users of social media sites are happy to share this information for free.

Researchers and marketers now see how useful subtle preferences and behaviors are in understanding consumers at varying levels of intimacy. With this new information

from social media sites, every user becomes a potential customer for anything sellable. Researchers are learning how to study relationships and correlations in very precise and surprising ways, leading to new and improved advertising and product development. The more brands are interested in users and their behaviors, the more they will invest in the company.

Social media sites are also highly valuable for more than simple advertising advantages. They are able to accrue and hold onto large amounts of hard data about people – from their location, to their credit card information, phone numbers, addresses, employers, relationships, political affiliations, and so on. This helps us understand why some social media sites top the highest IPOs for tech companies in America.

Average Revenue per User (ARPU)

Although it's important to understand overall revenue to determine social media valuation, it's impossible to overlook how valuable each user is to a social media site and why. For many of the big names in social networking, the stock market values a user anywhere from just under \$100 up to \$1,000. This is what you, the user, are worth to them. This number is the Average Revenue per User and it varies depending on the site and the personal information available, as well how that user engages with the content. This number is important in determining a social media company's valuation, because each company is different in its niches and audiences.

Below we'll look at each of the major social media sites and their valuations. You'll begin to see how, based on ARPU and other factors, their worth can drastically shift and change in the marketplace in no time.



Facebook

On May 18, 2012, Facebook set its IPO at \$38 a share and became the largest opening valuation by an American tech company in history. At the time, the company was valued at \$104 billion and since, its market worth has surged to \$184 billion, making Facebook one of the Top 5 in market valuation only 2 years since the company went public. Since, their shares are worth above \$60 on an average trading day, showing a 79% net change from its offering price.

Part of why Facebook has such a high valuation is its 1.23 billion monthly users, and how each user is valuable to advertisers and companies varies. Depending on what

research you cite, a Facebook fan can be worth about \$174 to a company. Of course, that depends on the brand. BMW's Facebook fans are valued at \$1613, while a fan for Coca-Cola is worth \$70.

Facebook serves as a window into what people care about, and users trust other users' recommendations, especially within their own network of friends and family. The difference in value of a fan has a lot to do with how they interact with data and information, too. A "like" on Facebook can be worth significantly less than a share, and recent studies show that fans are sharing less than they used to. According to addshoppers.com, a Facebook "like" can be worth \$1.41, while a share can be worth \$38. Again, research and valuation for social media varies for complicated reasons. Still, the results point to the same thing for advertisers and brands: a social media fan is at the very least 51% more likely to purchase a product, so everything that fan does to interact with a brand becomes important.



Twitter

Twitter's initial public offering was set at \$26 a share and investors were mostly pleased when it closed at about 73% higher than its initial offering. Twitter's revenue grew quickly, reporting over \$317 million in 2012, more than three times what the company brought in in 2011, and they reported even higher earnings in the first half of 2013. However, as of May 2014, its shares are beginning to drop. Still, its valuation hovers around \$13 billion and its users, as well as the company's innovation, grow every day.

Even though Twitter's overall value seems shaky to current investors, one thing is clear: its users are the most valuable in the social media world, and advertisers understand the unique value of a tweet's interaction with brands, news, and personal information in real-time. 90% of Twitter's revenue is from advertising, and that is because a Twitter user is more valuable than you think. Their tweets provide a window into what matters, not just on a consumer level, but mostly concerning news and information. Here again we begin to understand how valuable it is for media outlets and researchers to know what people care about, and how that information, whether it is news, travel info, or consumer information becomes important in appraising a company like Twitter.

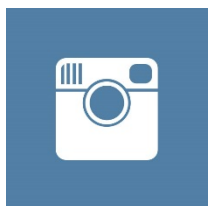
Even more so is how valuable a Twitter user's social account is to hackers. It all depends how much is shared and accessible within their account, but many times their information is more valuable on the black market than credit card accounts and

passwords. Besides their personal information, users tweet 143,199 tweets per second, and though many wonder whether a Facebook “like” is more important than a tweet, some suggest a tweet is worth more because a Twitter user will click on and engage with material before it is shared, more often than other social media users.



Pinterest

Pinterest, the San Francisco-based company, is unique because its users create virtual scrap boards of their dream lives, which usually center on home and décor, and style and fashion. Advertisers and brands can use Pinterest to locate very specific demographic information concerning consumer desire and aspirations. It's not surprising why Pinterest's valuation soared to \$3.8 billion by 2014 after raising \$225 million in a Fidelity Investment campaign, and rumoring to go for an IPO sometime in the middle of the year. Investors and advertisers recognize the more niche-centered advertising available on Pinterest, and the avenues open for innovation for a Pinterest user's ability to create new fashion, home, and décor ideas from a few simple pins. The future for Pinterest depends on its ability to send users to the goods and services they want directly from their “pinboards.” Pinterest's shares are worth even more than a share from Twitter, and with their users and value growing, it's possible we'll see this social media site increase in value in the coming years.



Instagram

Instagram boasts being one of the best online photo and video-sharing apps that doubles as social networking. Since launched in 2010, the company has acquired almost 1 billion total users and is currently about to surpass Twitter at 200 million monthly active users.

Instead of opening an initial public offering, in April 2012 Facebook acquired Instagram for about \$1 billion in cash and stock, and many feel this was a mistake for both sides of the coin. Since, Instagram has grown and improved immensely with the addition of video and better digital photo filters, making photos easily sharable across other social networks. Now, it's almost impossible to look back and give the company a what-if valuation, but many investors say Instagram is worth at least \$5 billion to Facebook, and since it added advertising to its platform in 2013, some say it's worth even more. What this means is that for social media sites like Instagram, patience is the key. Selling the company to a big name like Facebook seemed like a good idea to its creators and to

Facebook, Inc. However, it is now difficult to value the company as a separate entity, and draw clear conclusions concerning where that value began, how it accrued, and who benefits.



Foursquare

By the end of 2013, Foursquare, the social media app that lets users check-in to restaurants, nightlife, and entertainment venues, was worth more \$600 million. Recently, Microsoft invested \$15 million to collaborate with Windows-based phones and to help generate sales and increase its valuation, which has been on a plateau since 2011. It currently boasts 45 million users, and though it lags behind Twitter and Facebook, with its recent investments, Foursquare Labs, Inc. is rumored to be slowly increasing in value for its advertisers, possibly gearing up for an IPO.

The reason Foursquare is hanging on in value is its ability to gather a combination of data from its users, which provides valuable information for marketers in the restaurant industry and a wide-variety of entertainment industries. Their users account for more than 5 billion location check-ins, and that information is important for both local businesses and corporate entities. Businesses offer specials and promotions, even giveaways and discounts for checking in at their establishments, bringing in more customers and revenue. The data collected is both voluntary, when users check in at an establishment, as well as passive, concerning how the app monitors a user's location through their smartphone. Therefore, Foursquare is in a unique position to collect data that is location-based and marketable in every way.



LinkedIn

At 277 million users, LinkedIn has proven a long-lasting social media site, focused on business-oriented networking. The social media site has acquired more than 300 million users and many don't realize that the service has been around since 2003. In 2011, the company traded its first shares in an IPO at \$45 per share that helped bring in over \$150 million in advertising revenue alone for the year.

LinkedIn's valuation is high for many of the same reasons as other popular social networking sites, but as we're beginning to understand, having a very particular market is important. LinkedIn collects information about employees and professionals and can

draw conclusions about interactions, skill sets, networks, and recruiting in ways that once seemed impossible. The site is a stockpile of individuals' work history and networks from a professional level, and this information is valuable for employers and businesses that desire very specific skill sets. In addition, the user data is appealing to advertisers and investors for unexpected reasons. Forbes magazine calls LinkedIn's secret weapon "real engagement tracking" which helps content marketing teams understand user engagement on social media more accurately. Perhaps this is why LinkedIn is one of the fastest growing social media networks available; both users and investors clearly see the value of its use.

Other Social Media Sites

Interestingly, the traditional social media sites like Facebook and Twitter are the most valuable, whereas others like Instagram, Pinterest and Foursquare have less value than sites like Pandora, Yelp, Zillow and Trulia (the latter being online real estate databases) and Trip Advisor. These publicly traded companies have high market capitalizations because of the focused data they collect. Pandora can stream in the background on a computer for hours while the user works on other things, and the user will navigate back frequently to like or pass on songs that don't belong in their stations. Advertisers have known for a long time that music tastes can be a window into other personal interests and consumer habits. For the other more niche sites, the same idea applies. This is why so much of social media valuation depends on users, how they interact with and share information, and what that information is worth to the company itself, advertisers and investors.

Conclusion

The more you research Social Media valuation, the easier it is to see the value of a user. Each becomes more than just a potential new customer – a broad array of companies, politicians, and media have access to, theoretically, a person's whole life for analysis. Once we begin to realize that the major social networks are hotbeds of personal information – very particular and unprecedented market and consumer data – then it's easier to grasp the worth of these sites that at first glance, are entertaining time-wasters and nothing more.