SEC rule likely to trigger Facebook IPO in 2012

January 7 2011, By MICHAEL LIEDTKE , AP Technology Writer

In this Oct. 13, 2010 file photo, Facebook founder Mark Zuckerberg speaks in the Galileo Auditorium on Microsoft's Silicon Valley Campus in Mountain View, Calif. With so many investors becoming fans of the company, Facebook will be legally required to begin sharing more information about its finances and strategy by April 2012, according to documents distributed to prospective shareholders. (AP Photo/Jeff Chiu, File)

(AP) -- With so many investors becoming fans of the company, Facebook will be legally required to begin sharing more information about its finances and strategy by April 2012, according to documents distributed to prospective shareholders.

Some of the numbers that began trickling out Thursday were eye-popping - most notably a net profit margin of nearly 30 percent, much higher than most people had previously speculated.

The owner of the world's largest Internet social network, privately held since it started in a Harvard University dorm room seven years ago, will be forced to open its books because it expects to have more than 500 shareholders at some point this year, according to a person who has reviewed the documents handed out Thursday. The person asked not to be identified because the documents are only being given to an elite group selected to buy a stake in Facebook through a fund packaged by the company's newest investor, Goldman Sachs Group Inc.

Surpassing 500 shareholders will catapult Facebook over a hurdle likely to lead to the company's long-awaited initial public offering of stock next year.

After a company with at least $10 million in assets has more than 500 shareholders, the Securities and Exchange Commission requires it to disclose its financial results and other details on a quarterly basis in an effort to ensure investors are adequately informed. The reporting requirement kicks in 120 days after the fiscal year in which a company exceeds the shareholder threshold for the first time.

Facebook's fiscal year ends Dec. 31, meaning it would have until late April 2012 to comply.

The company, now based in Palo Alto, could still retain a private ownership structure, but an IPO is the more probable scenario given Facebook will have to make many of the same disclosures of a publicly traded company anyway.

But Facebook founder Mark Zuckerberg, 26, has been in no hurry to take the company public, partly because he hoped to preserve a free-wheeling culture. Some analysts also think Zuckerberg, named Time magazine's person of the year for 2010, wanted to avoid the public limelight so he would have more time to mature as a leader.

To help keep the company private, Facebook sought and received an SEC exemption in 2008 that assured employees who received a class of stock wouldn't be counted toward the 500-shareholder barrier. The stock awarded those employees won't be issued until an IPO or sale of the company occurs, another factor that will pressure Zuckerberg to drop his resistance to an IPO. Zuckerberg owns about a 25 percent stake in Facebook.

Facebook spokesman Jonathan Thaw declined to comment Thursday.

Crossing the 500-shareholder barrier prompted Google to pursue its IPO in 2004 before the Internet search leader had turned six years old.

If Facebook follows a similar timeline as Google did, its IPO would probably occur during the summer of 2012.

Some of Facebook's financial information is being shared for the first time as part of the exclusive stock offering that Goldman Sachs put together in an effort to raise $1.5 billion. The minimum investment in the fund is $2 million, although some exceptions are being made for Goldman's own partners.

Some of the numbers emerging in the limited stock offering help explain why Goldman Sachs itself decided to ante up $450 million for a less than 1 percent stake in Facebook earlier this week. The investment valued Facebook at $50 billion, more than twice the current market value of Internet pioneer Yahoo Inc.

Through the first nine months of last year, Facebook earned $355 million on revenue of $1.2 billion, according to the person who reviewed the offering document. That 30 percent profit margin is in the same range as that enjoyed by Google, which posted net income of nearly $6 billion on revenue of $29.9 billion through the first nine months of 2010.

Facebook produced a similar profit margin in 2009, too, with net income of $220 million on revenue of $777 million, according to the person who had seen the Goldman Sachs documents.

Like Google, Facebook is making most of its money so far by selling advertising. Facebook has emerged as a marketing magnet because it now has more than 500 million users worldwide, and the company knows a lot about them because its audience shares so much information about their interests on the website. More than 30 billion links, notes, photos and other types of content get posted on Facebook each month.

As impressive as Facebook's growth has been, just how much the business is worth remains a hotly debated topic.

The $50 billion market value implied in Goldman Sachs' investment is 25 times higher than the $2 billion in revenue that analysts believe the company had last year. Google, the Internet's biggest moneymaker so far, ended Thursday with a market value of $196 billion, about seven times its annual revenue.

Citation: SEC rule likely to trigger Facebook IPO in 2012 (2011, January 7) retrieved 27 April 2024 from https://phys.org/news/2011-01-sec-trigger-facebook-ipo.html