

Wall Street divided over Facebook prospects

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A memo distributed to potential investors in Facebook shares sold by Wall Street investment bank Goldman Sachs suggested the emerging [Internet giant](#) earned about \$500 million last year on sales of nearly \$2 billion.

"The document disclosed says \$355 million of operating profits for \$1.2 billion for the first three quarters" of 2010, said Lou Kerner of Wedbush Securities, a brokerage that owns Facebook shares.

"We know the revenues were ramping (up) significantly. We think the revenue approached \$2 billion by the end of the year," Kerner said.

"We were surprised by how profitable they were at this early stage of their growth."

Kerner said that Facebook would grow and benefit from economies of scale, increasing its profit margins.

"Given they are at 30 percent margin now it's probably conservative to think that they can reach 40 percent margin as they scale into the tens of billions of dollars of revenue from the \$2 billion revenue they had in 2010."

The analyst projected Facebook would have [profit margins](#) topping other Internet giants, such as search titan [Google](#).

The privately held Facebook makes money by selling advertising on its website and by "Facebook credits," a virtual cash subscribers can use to buy games and applications, instead of using credit cards.

Kerner said the company earns hefty 30 percent commissions on that virtual money.

Facebook has been in the spotlight since US media this week revealed Goldman Sachs had invested \$450 million in the company, alongside a \$50 million investment by Russian firm Digital Sky Technologies.

The deal values Facebook at \$50 billion dollars, more than companies with much larger revenue, like Time Warner.

Goldman reportedly closed a \$1.5 billion offering of Facebook shares after receiving billions of dollars in orders from its wealthiest investors

as well as its own executives.

According to Wedbush's Kerner, the shares have actually been trading privately for quite a while.

"The latest trades have been in the \$60 billion range," he said.

"So Goldman is actually getting a discount."

Gregori Volokhine, director of Meeschaert New York, was cautious.

Facebook's profit margin level did not surprise him because "it's a sector where the expenses aren't enormous, it's not a heavy industry."

But, he said, "a value of \$50 billion for \$500 millions earnings means you're paying 100 times profit, while a publicly traded firm like Google has a price-to-earnings multiple of only 21."

"They (Facebook) must quickly transform \$500 million into \$3 or \$4 billion," he added.

The New York Times reported Thursday that Goldman had offered Facebook shares to its powerful internal investment group, Goldman Sachs Capital Partners, which turned down the chance.

"That doesn't show skepticism, for Facebook is extraordinary, but it is all about the price," Volokhine said.

The fast-growing Facebook website, co-founded and headed by Mark Zuckerberg, has more than 600 million members worldwide and more than 300 shareholders, according to Kerner.

If Facebook surpasses 500 shareholders, it will be legally required to

begin providing financial information to the Securities and Exchange Commission.

Speculation increased that [Facebook](#) will launch an initial public offering of shares in 2012. Zuckerberg has resisted pressure to take his company public.

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