

Investors clamor for Facebook's IPO

January 27 2012, By Jessica Guynn and Walter Hamilton

Wall Street is about to get Facebook fever. The social networking giant with nearly 1 billion users is expected to file papers any day now to sell stock to the public. The timing stems partly from federal rules that would require Facebook Inc. to begin disclosing its financial information in April because of its phenomenal growth.

Beyond minting an estimated 1,000 new millionaires at the company, Facebook's initial public stock offering could provide a huge boost to Wall Street [investment banks](#) sorely in need of a hot stock to excite investors. The right to manage the [IPO](#) will also generate an estimated \$250 million in fees.

"This will be the largest IPO of the year for sure and probably of the decade," said Max Wolff, senior analyst at GreenCrest [Capital Management](#) in New York. "There is literally a fortune in fees, which is occurring in a slow market. There's also bragging rights. These firms want to be able to go to their clients and offer them an allocation of the Facebook IPO."

Facebook Inc. is expected to raise \$10 billion in the offering, giving it a [market capitalization](#) of \$100 billion. [Google](#) Inc., by comparison, raised \$1.9 billion in its IPO in 2004.

Shares of Google skyrocketed on their opening day, and analysts expect Facebook shares to do the same.

"The minute the IPO is filed, there will be pandemonium," said IPO

Boutique's Scott Sweet, who says he has never seen anything quite like the pent-up demand for Facebook shares. "And this is coming from someone who has seen extremely hot IPOs. I have seen pandemonium."

A successful IPO by one of the country's most prominent companies also could power the stock market higher by attracting scores of investors who have been scared off by the volatility in recent years.

"People are looking for something that's going to give them confidence," said David Menlow, president of IPOfinancial.com, a research firm in Millburn, N.J. "They'd like to believe the IPO is going to be a strong one."

California officials are also counting on the IPO to help with California's budget crisis. Recent technology IPOs have added hundreds of millions of dollars to state coffers from capital gains taxes.

Facebook has become one of the world's best-known consumer brands and the Web's most popular hangout. And sometime this year it's expected to hit 1 billion users. That's half of all people on the Internet and 1 in 7 people on the planet.

Mark Zuckerberg founded the company in his Harvard dorm room at age 19. Now 27, Zuckerberg's stake in Facebook will be worth an estimated \$20 billion after the IPO - making him one of the world's richest men.

The company's success lies in the hoard of information it holds about its users - valuable information that advertisers can use to target their products and services. Its growing business has escalated competition with rival tech giants Google and Apple Inc.

Now Facebook is looking to build a war chest from the IPO to dominate

the Web for decades. Can Facebook stake its fortune in [social networking](#) in the wildly profitable way Google did with Internet search?

Swarms of investors can't wait to find out. Even everyday users are looking forward to poring over Facebook's prospectus - the first in-depth glimpse at Facebook's financials - as if it were the next installment of "Twilight" or "Harry Potter."

How much money the company is making is a closely guarded secret. But that will soon change.

Within days or weeks, Facebook is expected to file papers with the U.S. Securities and Exchange Commission announcing its intent to sell stock. As part of the filing, Facebook will release a prospectus with detailed financial information, including its revenue and income.

The actual sale of stock typically occurs about three months after the initial filing.

In fevered anticipation of the IPO, shares have surged on private trading exchanges. Sharespost sold a block of 70,000 shares this week at \$34 a share. At that price, Facebook is already valued at more than \$80 billion.

Some are hanging back. Just because you use Facebook doesn't mean you should own it, at least not right away, especially given the lackluster debuts of high-profile Internet companies Groupon Inc. and Zynga Inc.

"Expectations are so high, and there have been so many rounds of investment on private exchanges, one has to wonder how much upside is left once Facebook becomes a public company," said Anthony Valencia, media analyst at TCW Group.

Those expectations couldn't be any higher than on Facebook's splashy

new Menlo Park campus 30 miles south of San Francisco on the edge of tidal mud flats and salt marshes. Every square foot of the 57-acre campus still under construction speaks to the ascendance of Facebook. Hacker Way is now the premier vanity address in Silicon Valley.

Facebook will soon pour asphalt for a main drag that cuts a broad swath through the middle of campus. By March, thousands of staffers will stroll on sidewalks or roll on bicycles and Ripstiks (two-wheeled skateboards) down the middle of a colorful urban scape lined with awning-shaded storefronts such as a noodle joint, a bike shop, Philz Coffee stand, a dry cleaners, computer help desk and a burger shack that some have dubbed Zuckerberger's even before it opens for business.

The wealth of some of the campus' new residents is already apparent in the parking lot, where a black Tesla was juicing up at an electric vehicle charging station. Facebook has purchased land across a busy highway that would give Facebook enough room to grow to more than 9,000 employees. There are already plans afoot to equip a large highway undercrossing with a giant people mover.

It's a grown-up campus for a company that is now all grown up. Friends say Zuckerberg, who declined requests for an interview, has now embraced an IPO as a natural next step for his company and a reward for its employees. But the guy who turned down a billion-dollar offer from Yahoo when he was just 22 is unlikely to change his independent stripe even after ringing the opening bell, said David Kirkpatrick, author of "The Facebook Effect."

Being publicly traded will bring heavier scrutiny from regulators alarmed at how Facebook handles users' data despite a settlement with the Federal Trade Commission in which the company agreed to privacy audits for 20 years. And Wall Street will exert pressure to woo the big campaigns from Madison Avenue advertisers that Facebook will need to

pump up revenue to meet ever-rising expectations. In 2011, [Facebook](#) is believed to have raked in \$4.2 billion, about what Apple generates in three weeks.

Zuckerberg probably will borrow a page from Google founders Larry Page and Sergey Brin, who famously warned investors they planned to run their Internet company unconventionally. Facebook's dual-class stock structure also ensures that Zuckerberg will retain firm control over the company and its board of directors.

"Mark thinks of himself as answering to a higher authority: the user," Kirkpatrick said.

(c)2012 the Los Angeles Times
Distributed by MCT Information Services

Citation: Investors clamor for Facebook's IPO (2012, January 27) retrieved 24 April 2024 from <https://phys.org/news/2012-01-investors-clamor-facebook-ipo.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--