

Facebook surrenders its privacy in IPO documents

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A Facebook sign is seen at the main entrance of company's new headquarters in Menlo Park in California. Investors came down with Facebook fever after the social networking titan filed to go public and seek to raise \$5 billion in the largest flotation ever by an Internet company on Wall Street.

Facebook is baring its business soul. The unveiling came late Wednesday when the company that depends on people to share their lives online filed its plans to raise \$5 billion in an initial public offering of stock. It's a revelatory moment that prospective investors, curious competitors and nosy reporters have been awaiting for two years. During that time, Facebook established itself as a communications hub and emerged as a threat to the Internet's most powerful company, Google Inc.

As with almost anything crafted by a bunch of lawyers and bankers, the 197-page prospectus that Facebook filed with the Securities and

Exchange Commission is filled with boilerplate legalese and mind-numbing numbers.

But there were some juicy details in there, too.

Above all, the documents confirmed what everyone had been hearing: Facebook is very profitable and getting stronger. The company Mark Zuckerberg started with some friends in 2004 has seen its annual revenue soar from \$777 million in 2009 to \$3.7 billion last year. Facebook's earnings have grown at a similar rate too, ballooning from \$122 million in 2009 to \$668 million last year.

Facebook ended 2011 with \$3.9 billion in cash. That's a relatively small amount compared to the nearly \$45 billion that Google has in the bank.

Facebook's prosperity has been fueled by a steady expansion of its audience, making its website a more attractive marketing vehicle for ads, which account for most of the company's revenue. Facebook ended last year with 845 million users, up 39 percent from 608 million at the end of 2010. Those users share their interests and preferences prodigiously. Facebook recorded a daily average of 2.7 billion "likes" and comments during the final three months of last year.

Facebook has become so addictive that more than half its audience - 483 million users - log in every day.

Facebook's revenue total disappointed some people who pored through the documents. One reason: The company generates about \$4.39 in revenue per user. "That is a surprisingly low number," said University of Notre Dame finance professor Tim Loughran, who studies IPOs. Google's annual revenue of nearly \$38 billion works out to more than \$30 per user of its services.

"Facebook needs to find more ways to get revenue from their users," Loughran said.

Facebook listed its most promising expansion opportunities as Brazil, Germany, India, Japan, Russia and South Korea. The company, based in Menlo Park, Calif., eventually hopes to make its service available in China if it can navigate rules requiring online content to be censored if the Chinese government considers it to be objectionable or obscene.

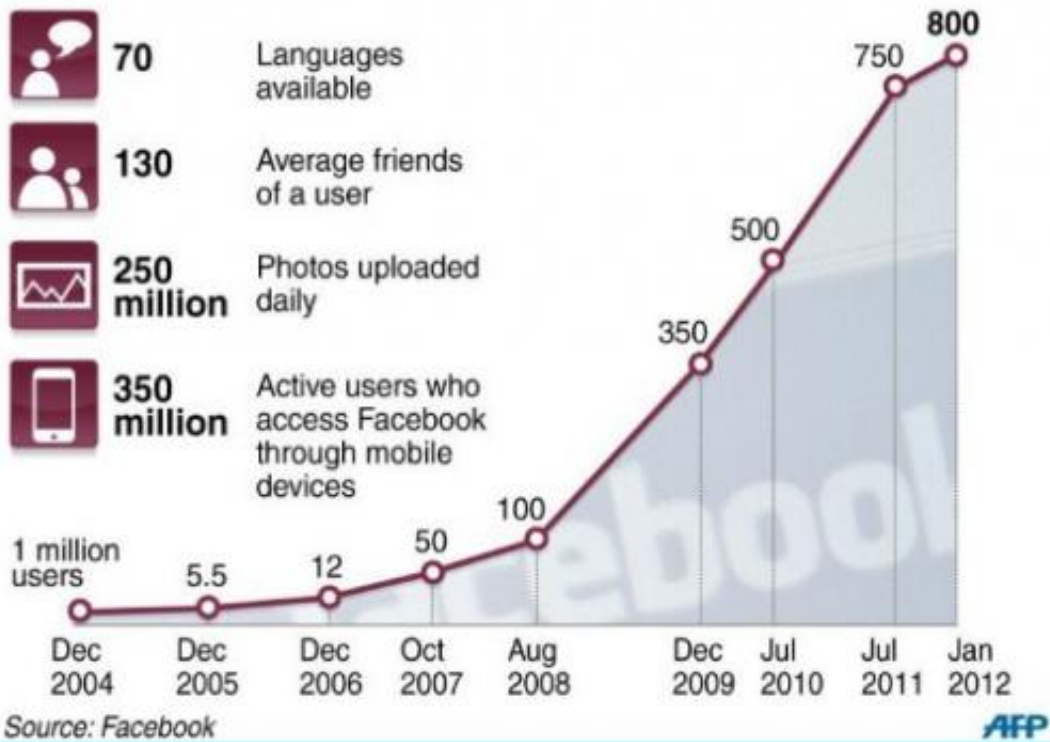
The IPO filing gives some clue when Facebook is likely to surpass 1 billion users. If it can add users at roughly the same pace as last year, Facebook should surpass the 1 billion mark this summer.

As it is, Facebook already generates 44 percent of its revenue outside the U.S. The company is also developing other sources of revenue beyond online advertising faster than Google. Advertising accounted for 85 percent of Facebook's revenue last year. It made up 96 percent of Google's. Facebook's other revenue sources include the 30 percent cut of sales it takes from game makers and other external applications companies that sell things on its website.

The big question is whether Facebook's numbers are impressive enough to fetch the lofty IPO price. It's still too early in the process for Facebook to reveal how much it intends to ask for its shares, but Wednesday's filing provides some clues. Facebook valued its Class B common stock at \$29.73 at the end of December, down slightly from appraisals of \$30.07 in June and September. If this unfolds like most hot IPOs, Facebook will probably try to sell its shares at a premium. That could mean an IPO price in the \$35 to \$40 range. Investor demand, though, ultimately will dictate the pricing.

The rise of Facebook

Launched in February 2004, the social networking giant now has more than 800 million active users worldwide



Fact file on Facebook, including a chart showing the rise of active users worldwide. Social networking titan filed to go public on Wednesday, seeking to raise \$5 billion in the largest flotation ever by an Internet company on Wall Street.

Facebook still hasn't listed how many outstanding shares it has, but the documents make it possible to make a rough estimate of the company's market value at the end of last year. Financial notes in the filing show Facebook calculated it had about 2.9 billion fully diluted shares at the end of December. That works out to a market value of about \$86 billion, based on Facebook's \$29.73-per-share self-appraisal.

At that price, the nearly 534 million shares that the 27-year-old

Zuckerberg owns are worth about \$16 billion. The filing indicates Zuckerberg will sell an unspecified number of shares in the IPO to cover a tax bill for exercising a stock option to buy 120 million shares. Zuckerberg has been collecting a \$500,000 salary but that will fall to one dollar next year at his own request, according to the filing.

Other big winners in the IPO include: Facebook co-founder and old Zuckerberg friend, Dustin Moskovitz, who owns nearly 134 million shares; venture capital firm Accel Partners, which owns 201 million shares; Russian investor DST Global Ltd., which owns 131 million shares; and former PayPal CEO Peter Thiel, who owns nearly 45 million shares.

Hundreds of other Facebook employees could become millionaires because they receive stock as part of their compensation. Facebook has about 3,200 employees now, nearly 2,000 more than it did two years ago.

Facebook also shared some of its biggest worries in the filing. Among other things, it cited Google's ability to use its dominance in Internet search to promote its Google Plus social network. Facebook also frets the possibility that regulators in Europe and the U.S. may impose tougher privacy rules that would make it more difficult for the company to stockpile information about its users.

Road to IPO: Milestones in Facebook's history

Some key developments in the eight years since Facebook's creation:

February 2004: Mark Zuckerberg starts Facebook as a sophomore at Harvard University.

March 2004: Facebook begins expansion to other colleges and universities.

June 2004: Facebook moves headquarters to Palo Alto, Calif.

September 2004: Facebook introduces the Wall, which allows people to write personal musings and other tidbits on profile pages. Lawsuit filed against Facebook claiming that Zuckerberg stole the idea for Facebook from a company co-founded by twins Cameron and Tyler Winklevoss and a third person at Harvard.

September 2005: Facebook expands to include high schools.

May 2006: Facebook introduces work networks, allowing people with a corporate email address to join.

September 2006: Facebook begins letting anyone over 13 join. It also introduces News Feed, which collects friends' Wall posts in one place. Although that led to complaints about privacy, News Feed became one of Facebook's most popular features.

May 2007: Facebook launches Platform, a system for letting outside programmers develop tools for sharing photos, taking quizzes and playing games. The system creates a Facebook economy and allows companies such as game maker Zynga Inc. to thrive.

October 2007: Facebook agrees to sell a 1.6 percent stake to Microsoft for \$240 million and forges advertising partnership.

November 2007: Facebook unveils its Beacon program, a feature that broadcasts people's activities on dozens of outside sites. Yet another privacy backlash led Facebook to give people more control over Beacon, before Facebook ultimately scrapped it as part of a legal settlement.

March 2008: Facebook hires Sheryl Sandberg as chief operating officer, snatching the savvy, high-profile executive from Google Inc.

April 2008: Facebook Chat introduced.

February 2009: Facebook introduces "Like," allowing people to endorse other people's posts.

June 2009: Facebook surpasses News Corp.'s Myspace as the leading online social network in the U.S.

August 2010: Facebook launches location feature, allowing people to share where they are with their friends and strangers.

October 2010: Release of "The Social Network," a movie about Zuckerberg and the legal battles over Facebook's founding. It gets eight Academy Awards nominations and wins three.

June 2011: Google launches rival social network called Plus. The Winklevoss twins end their legal battle over the idea behind Facebook. They had settled with Facebook for \$65 million in 2008, but later sought more money.

September 2011: Facebook introduces Timeline, a new version of the profile page. It shows highlights from a person's entire Facebook life rather than recent posts.

November 2011: Facebook agrees to settle federal charges that it violated users' privacy by getting people to share more information than they agreed to when they signed up to the site. As part of a settlement, Facebook will allow independent auditors to review its privacy practices for two years. It also agrees to get approval from users before changing how the company handles their data.

December 2011: Facebook completes its move to Menlo Park, Calif. Its address is 1 Hacker Way.

January 2012: Facebook begins making Timeline mandatory.

February 2012: Facebook files for an initial public offering of stock.

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