A debate: Should you jump in on Facebook debut?

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A television photographer shoots the Like sign outside of Facebook headquarters in Menlo Park, Calif., Friday, May 18, 2012. Facebook CEO Mark Zuckerberg symbolically opened trading on the Nasdaq stock market inside Facebook headquarters in Menlo Park. Facebook stock is starting trading today, available to the general public for the first time. The social networking site, which was started in a college dorm room eight years ago, would be valued at more than $100 billion according to the price set for shares ahead of today's trading. (AP Photo/Paul Sakuma)

(AP) -- Facebook begins selling stock to the public Friday in the most talked-about market debut in years. Two Associated Press business writers are debating whether the stock is a smart buy.

PRESS THE `LIKE' BUTTON, SOON

By MICHAEL LIEDTKE, AP Technology Writer

SAN FRANCISCO - I doubted Mark Zuckerberg when I met him more than five years ago, shortly after he rebuffed several chances to sell Facebook for what was a fortune even then.

He seemed confident to the point of being cocky about his ability to turn what started as an online hangout for college students into a digital commune for the entire world. Facebook had about 20 million users at the time.

While listening to Zuckerberg pontificate on Facebook's potential to become a more important communication channel than long-established media outlets, I wondered whether this then-22-year-old kid was deluded.

Had he screwed up by not accepting one of those buyout bids ranging from $800 million to $1.5 billion that were dangled before him during 2005 and 2006?

Clearly not. Now I think investors who don't buy some Facebook stock within the next month will regret it in five years, when the Internet's largest social network will have more users than the population of China.

As it is, Facebook has more than 900 million users and will have an initial market value of $104 billion - more than twice as much as the combined value of two former suitors, Yahoo and Viacom.

Zuckerberg, who turned 28 on Monday, pulled off the initial public offering just eight years after starting Facebook in his Harvard dorm room. Just imagine what he might be able to accomplish by the time he turns 35, now that Facebook has raised $6.8 billion in its IPO.

But don't wait too long to find out. At some point in the next few days or weeks, seize on the IPO as a rare opportunity to prosper from the ingenuity of a headstrong visionary in the mold of Apple's Steve Jobs, Microsoft's Bill Gates and Google's Larry Page and Sergey Brin.

There is one difference: None of them was named Time magazine's person of the year in his mid-20s, as Zuckerberg was in 2010.

Apple, Microsoft and Google, of course, all changed the world with their innovations and built steadily growing businesses that enriched investors. Collectively, the three technology titans have created more than $1 trillion in shareholder wealth since their respective IPOs.

The returns on a post-IPO investment in Facebook aren't likely to be as big because the company is starting with such a lofty valuation. Apple debuted with a market value of less than $2 billion in 1980, while Microsoft took its bow in 1986 with a market value of less than $1 billion.

More recently, Google had a market value of nearly $25 billion in 2004 when mainstream investors got their first chance to buy stock in the Internet search leader.

Just because Facebook's upside isn't as great doesn't mean it can't be a great investment. The chances of Facebook's stock doubling or tripling during the next five years look promising, given that the company is sitting on a gold mine of personal data prized by advertisers looking to sell products and services to the people most likely to buy them.

It's an advantage that Google also enjoyed as it figured out how to match ads with the preferences signaled by Internet search requests. Google's market value surpassed $200 billion less than 3 1/2 years after its IPO, and Facebook knows even more about its users' preferences because it doesn't have to make educated guesses about them. Facebook users explicitly tell the company by pressing "like" buttons all over the Web and sharing revealing details about their lives in status updates.

The trickiest part about Facebook's IPO is deciding when to buy some shares. It's probably unwise to invest Friday, when Facebook's shares will begin trading amid a delirious fervor likely to inflate the stock price, at least temporarily.

Consider what happened after last year's IPO of LinkedIn, an online professional networking service that is probably the closest thing Wall Street has seen to Facebook's social network.

LinkedIn's shares rocketed from $45 in its IPO pricing to $122.70 within the first few hours of trading. A year later, the stock hasn't touched that price again. But a month after the IPO, patient investors were able to snap up LinkedIn's shares for under $64. The stock has bounced back above $100, now that LinkedIn has proved it can be more profitable than analysts anticipated.

Skeptics believe LinkedIn is grossly overvalued, just as the doubters are harrumphing about Facebook.

Both companies are expensive by traditional benchmarks. LinkedIn trades at about 12 times its projected revenue this year, while Facebook is going for 20 times its projected 2012 revenue, based on its IPO price of $38. Google, by comparison, is trading at about six times its projected revenue for this year.

But Facebook hasn't been as aggressive as it could have been about selling ads or finding other ways to make money where its visitors, on average, dwell for an average of 6 1/2 hours per month, according to comScore Inc. Instead of ramping up revenue, Facebook has concentrated on attracting users - an emphasis that is bound to pay off.

One of the main reasons Facebook is likely to figure this all out is that Zuckerberg hired Sheryl Sandberg as the company's chief operating officer in 2008. Sandberg played a key role in expanding Google's advertising system during its first few years as a publicly held company, a period when the company's stock hit its peak so far. Sandberg brought not only her own expertise to Facebook but also hundreds of other former Google employees who defected to the social network in search of the next big thing.

They found it, and it's still not too late to get a piece of the action.

STEER CLEAR OF THE HYPE

By BERNARD CONDON, AP Business Writer

NEW YORK - First, forget the numbers and go with your gut: Given the breathless press coverage, the ubiquity of its product, the Oscar-winning film about its unlikely success and the rock-star status of its 28-year-old founder, do you really believe the smart folks on Wall Street coming up with a stock price for Facebook resisted the temptation to wring every cent out of buyers?

In investing, hype is the enemy. I was skeptical from the start.

The company listed a range of possible prices for its initial public offering of stock, then raised it, then told us that insiders and early investors would be selling even more of their shares in the offering than they had planned. Now I'm convinced: Don't touch this stock.

The banks helping take Facebook public want us to value this 8-year-old upstart at as much as $104 billion, more than Disney or Kraft Foods, though those companies earn three and four times more. That top valuation is also more than 100 times Facebook's earnings last year, versus 13 times for the average company.

At such a high price, it will take years for this so-called earnings multiple to fall to a more reasonable level, and that's assuming the company can maintain its torrid earnings growth.

To make money in Facebook, you're betting that other buyers will be just as willing as you to hold their nose at the valuation, and keep doing so for years.

Facebook grew its earnings 65 percent last year, faster than at most companies, so you should pay more for it than you would the typical company. But how much more? Profits at Apple grew 85 percent last year. Its stock is trading at 13 times earnings per share.

And while the big profit growth for Facebook is impressive, it's slowing, and has been for three years. Last quarter, the growth turned negative, meaning it fell - down 12 percent from the first three months a year earlier.

I think Facebook is one of the best things to happen in America in years. It's an unlikely, brazen success that makes you believe that the nation's best days may still be ahead. A college kid starts an online bulletin board for his classmates in 2004, and now one-seventh of the world's population is using it.

And the company is not just profitable, but incredibly so. Whereas most big, publicly-traded companies have to content themselves with pulling 13 cents of earnings out of every dollar of sales before paying taxes, Facebook gets to keep a seemingly impossible 46 cents.

And therein lies another problem: No company can sustain margins that high for long. If you believe America is a place that gives rise to destructive, capitalistic forces like Mark Zuckerberg, you know those margins are going to collapse, and fast. They are too high not to attract competitors.

What Facebook did to MySpace, a rival yet unknown can do to it. Or a rival suddenly known, like Pinterest.

Not familiar with that company? I wasn't until earlier this year. A sort of online scrapbook, Pinterest now has 10 million monthly visitors, even though its site was launched just in 2009. That early growth is faster than even Facebook's was, according to comScore, a tracker of Internet traffic.

The fact is, the social media industry is too open to competition for comfort. It lacks what Warren Buffett calls a "deep moat" protecting it from rivals. Scoff if you want, but how many college kids can build a rival to Burlington Northern Santa Fe railroad, a Buffett holding? Where would they get the steel for the lines, much less the men to lay them?

Another problem with Facebook is that the very qualities that made it so successful as a private firm could sink it as a public one.

Facebook says in its IPO papers that it's not about to rein in the sort of rebel culture at the company that has encouraged "innovation" just to deliver "short-term" profits that please Wall Street investors.

If only "short-term" profits were the only demand. When you go public, you are promising investors that your profits will not only rise, but do so consistently, quarter after quarter, in predictable increments. It's a fiction. The nature of many businesses is such that profits come in messy lumps. But companies exploit loose accounting rules, as Wall Street expects them to do, to make their profits seem smoother than they really are.

Is Facebook not going play this game, either? That would be admirable. And disastrous for investors.

I suspect what's got people in a lather about Facebook is that they think it could become the next Google or Amazon. Those stocks went public at high earnings multiples, and still managed to reward investors handsomely.

But the bulls forget the big role played by happenstance and luck in business success, and how difficult it is to separate winners from clunkers ahead of time. And there have been a lot of clunkers: ICG, Priceline.com, Pets.com, Netscape and, more recently, Pandora Media, Demand Media and Groupon. The stocks of those latter three are down more than a third from their IPOs last year.

Maybe this is just a matter of taste. I prefer the dowdy and obscure over the hot and well-known.

But I think there's another distinction here. Facebook is a gamble, a fun fling, like buying a lottery ticket. The valuation is just too high, the unknowns too many, to call it an investment. If you're going to sink money into the company, recognize that much at least.