

Facebook IPO debacle raises investor dander

May 25 2012, by Veronique Dupont



People walk past a sign welcoming Facebook at the NASDAQ stock exchange on Times Square in New York, on May 18. The spate of complaints and investigations over the Facebook stock offering suggests big institutions had an edge over small investors, raising questions about the process.

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The [initial public offering](#) last week which raised a record \$16 billion has sparked fury, and lawsuits, amid concerns that key information about the outlook for the social network giant might not have been made widely available.

A [flood](#) of [lawsuits](#) allege that [Facebook](#) along with underwriters from Morgan Stanley, [Goldman Sachs](#) and other big [Wall Street](#) banks that distributed the shares withheld crucial forecasts that pointed to weaker

growth for Facebook, while sharing the information with big institutional clients.

"Is the little guy left out? Absolutely," said a source familiar with the regulatory process, who asked not to be identified.

"If the little guy would become a big client, they'd be invited in too."

Facebook shares were offered at \$38, amid what appeared to be massive interest from investors.

The shares ended nearly unchanged the first day after a brief opening surge, then slid almost 20 percent, raising questions about the pricing and a decision to offer 25 percent more shares.

The big issue for investors is whether they got adequate information about concerns over Facebook's ability to get revenues from users on [mobile devices](#).



Facebook co-founder Mark Zuckerberg is seen on a screen getting ready to ring

the NASDAQ stock exchange opening bell in Times Square in New York on May 18. The initial public offering last week which raised a record \$16 billion has sparked fury, and lawsuits, amid concerns that key information about the outlook for the social network giant might not have been made widely available.

Although Facebook had described these concerns in the past, the most updated documents prompted some big banks to downgrade their outlook for revenue growth.

A source familiar with the underwriting process, who asked to remain anonymous, said the updated forecasts were provided to a "private sales force" dealing with institutional clients.

The banks underwriting an [IPO](#) are not permitted to release analyst notes ahead of the offering, because this could mean a [conflict of interest](#). But they may speak with clients by telephone during the so-called "road show."

A regulatory source said if the banks shared information with institutional clients that wasn't available publicly, "that's a serious violation."

Gregori Volokhine of the New York investment firm Meeschaert said the big institutional clients have the advantage of meeting management and asking questions during the road show.

Critics of this process say this gives the big investors an edge, and that the road show should be webcast or otherwise made available to all investors.

Morgan Stanley is being blamed for cutting its own internal Facebook

earnings forecasts even while supporting the company in increasing the size of the IPO by 25 percent to 421 million shares, and raising the issue price sharply to \$38 a share.

On Tuesday, Morgan Stanley insisted it followed all appropriate procedures in the IPO, including disseminating the update Facebook filing, the "S1", to all of the company's institutional and retail investors.

Regulators were examining what happened with the underwriters, and the banking committee of the US Senate was also informally gathering information on the case.

"If true, the allegations are a matter of regulatory concern to FINRA and the SEC," Rick Ketchum, the chief executive of the Financial Industry Regulatory Authority, said in a statement.

Also irking the investment community were special deals offered, such as the half-billion dollars worth of Facebook shares which Goldman Sachs acquired in 2011.

"All this should not be normal, and hurts confidence in financial markets," Volokhine said.

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