# The pop that wasn't: Life after Facebook's IPO

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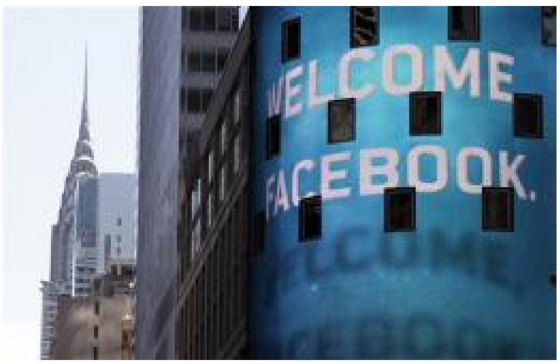



In this Friday, May 18, 2012, file photo, the animated facade of the Nasdaq MarketSite, welcomes the Facebook IPO, in New York's Times Square. Itâ€™s been a month since Facebookâ€™s IPO fell flat and in that time, the market for initial public offerings has gone cold. Venture capitalists say the fallout from Facebookâ€™s rocky IPO is making technology companies more cautious about going public. (AP Photo/Richard Drew, File)

(AP) — It's been a month since Facebook's IPO fell flat and in that time, the market for initial public offerings has collapsed.

No company has gone public since May 18, compared with 19 in the same period a year ago. Fourteen offerings have been withdrawn or delayed, according to Dealogic.

There are no public offerings scheduled this week. Of course, thanks to the European debt crisis, financial markets haven't been terribly conducive to IPOs. Still, venture capitalists say the fallout from Facebook's rocky IPO is making companies —especially those in the technology sector— cautious about going public.

"It pretty much wiped the counter clean for the time being," says Francis Gaskins, president of researcher IPOdesktop. "It sucked the air out of the room."

It wasn't supposed to be this way. The Internet industry that captivated the investment world in the late 1990s and went bust as the next decade began had pinned its hopes on Facebook's stock market debut to signify the beginning of a new era. In Silicon Valley, the IPO had been billed as "the big one", an earth-shaking event that would unleash a wave of investment in technology start-ups.

Instead, from the first-day-pop-that-wasn't to the investor lawsuits and falling share prices that followed, Facebook's $16 billion initial public offering has resulted in nothing but trepidation among tech entrepreneurs and those who supply their early funding.

"There were a lot of venture capitalists and entrepreneurs that really have been waiting for Facebook to go public," says Sam Hamadeh, the CEO of PrivCo, a research firm that follows privately held companies. "Everybody's been told just wait 'til May 18, Facebook is going to pop, everybody will get very excited about it ... and then you have the opportunity to go public this summer with that halo effect."

That bright, glowing aura never materialized. After pricing at $38 the night before its market debut, Facebook's stock shot as high as $45 before settling at $38.23 at the end of its first trading day. Since then, the stock dropped as low as $25.52. On Thursday, it was trading at $32.05 down 16 percent from its IPO price.

Facebook Inc. has joined the ranks of other recently-public Internet companies that are trading below their IPO prices. There's Zynga Inc., whose games are played mainly on Facebook and Pandora Media Inc., the online radio service. Groupon Inc., which offers online deals to subscribers, went public on November 4 at $20 and is now trading around $10.

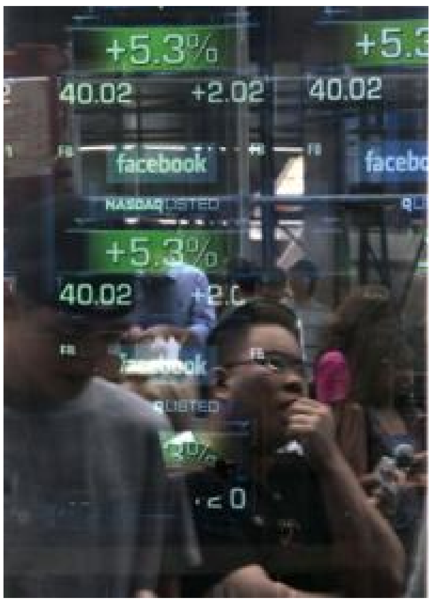
And Friday, May 18, will be remembered as the day Facebook's much-ballyhooed IPO landed flat on its belly, marred by technical glitches at the Nasdaq Stock Market that delayed the stock's trading by half an hour. There's now agreement among investors that Facebook may not be worth as much as Amazon.com, or half as much as Google — not yet at least. The Menlo Park, Calif., company's stock is down 17 percent since its first day of trading.

Even Morgan Stanley, the highly-regarded underwriting bank that ushered the likes of Apple, Netscape and Google into the public markets, has come under fire for its handling of Facebook's IPO. Critics accuse the bank of offering too many shares at too high a price. They also claim it gave special treatment to its high-end clients.

Now, a host of companies are feeling a different kind of Facebook effect. The social network's stock has weighed on the stocks of other social media companies. Zynga has seen its stock fall 18 percent since Facebook started trading. And it may have influenced online travel site Kayak Software Inc. to delay its IPO. Though Kayak did not have a set IPO date, it had filed its intention to go public more than a year ago and had been expected to start trading soon. The company said recently that it is waiting for market conditions to get better.

"The mood is pessimistic right now," Hamadeh says. "But everybody is still holding out hope that the IPO market will recover, that somehow Facebook's stock will recover."

Of the fourteen IPOs that have been postponed since May 18, it's unclear if any of those cancellations relate directly to Facebook's experience. One was Tria Beauty, which makes laser hair removal devices and planned to raise $64 million. Another, Corsair Components, makes computer gaming parts. Both cited poor market conditions.




In this Friday, May 18, 2012, file photo, Passers-by are reflected in the window of the Nasdaq media center as they view reports of trading activity on Facebook's stock on the Nasdaq stock market in New York. Itâ€™s been a month since Facebookâ€™s IPO fell flat and in that time, the market for initial public offerings has gone cold. Venture capitalists say the fallout from Facebookâ€™s rocky IPO is making technology companies more cautious about going public.(AP Photo/Bebeto Matthews, File)

That much is true — Facebook's IPO capped the worst week this year for the U.S. stock market.

Sanjay Sabnani, the CEO of online community network CrowdGather, says the Internet industry needed "a catalyst that captured the imagination of the American investment public, that the American dream is still alive in the Internet sector."

"The good news is that you can't really argue that it didn't bring attention," added Sabnani, whose company started trading on the Over the Counter Bulletin Board in the spring of 2008.

But the IPO also stirred suspicions that Facebook is overvalued, that it's not growing fast enough and that the consumer shift from personal computers to mobile devices will hurt its growth.

"The bad news is that it wasn't explosive," says Sabnani. "It didn't bring money hand-over-fist into the Internet sector."

Steve Harrick, partner at Silicon Valley venture capital firm Institutional Venture Partners, says Facebook's IPO —the Nasdaq glitch, especially, as well as the last-minute increase of the stock's initial offering price, "really rattled" the confidence of retail investors, average people who are already the most skittish in any IPO.

But Harrick, who joined IVP in 2001, says his firm "is not shrinking away" from the public markets with its companies.

"I think there is still a lot of demand for great technology companies," he says.

There are 165 companies that have filed their intention to go public, says Nick Einhorn, an analyst at Renaissance, an IPO advisory firm. This might be understated, though, if companies have started to use the confidential filing process that's part of the Jumpstart Our Business Startups, or JOBS Act designed to help startups and small businesses grow. The number of IPOs, Einhorn added, has generally increased over the past three years, as the U.S. has emerged from the 2008 financial crisis.

While there are a lot of companies waiting for an IPO, none are Facebook's size and caliber — those come around once every few years. Facebook served as the grand finale for a crop of big-name Internet IPOs in the past year or so, beginning with professional networking service LinkedIn Corp., then Groupon, Zynga and Yelp. There are a handful of large start-up companies that have not signaled their intention to go public, such as Twitter, the San Francisco-based short messaging service.

One deal that doesn't go as expected is unlikely to dissuade most of them from entering the public market, Einhorn added. There are all sorts of benefits to an IPO. Among them: raising capital, providing liquidity to existing shareholders and raising the company's profile.

"This one had a lot of visibility and a lot of moving parts," says Deepak Kamra, general partner at Menlo Park, Calif.-based VC firm Canaan Partners. He added that, among the venture capital lot, Facebook's IPO had become a "huge distraction in daily life."

"I hope Facebook is not distracted," he says. "In terms of VC people, I have not heard of anybody pulling an offering or even thinking about it. But (the thing) to watch is whether they start moving away from Morgan Stanley as the underwriter. They don't want to go through this again."

For many in the technology sector, Facebook's IPO doesn't offer lessons or cautionary tales of any kind —because it was an anomaly. It was the highest-valued U.S. company ever to go public, and the third-highest in the world. It's a household name and the amount of money it raised put its IPO in a class of its own. That brought a lot of attention, anticipation, and a higher-than-usual number of regular "retail" investors interested in the stock.

"If you are a $100 million or $200 million company going to go public, you're not going to have the same scrutiny that Facebook had," Einhorn says.

CrowdGather's Sabnani says he's not disappointed with Facebook's IPO. He thinks the market is more sensible now than in the late 1990s, the height of the infamous Internet bubble. He should know. In 1999, he was the president of a publicly traded company, Venture Catalyst, which helped startups get their footing. The company is still around but it's no longer public.

"We know a lot more about what's going to happen with the Internet," he says. "Back then it was...like digging for oil. We didn't know what was going to happen."

Now, companies that are already profitable are going public. Yet they are not seeing the eye-popping stock price increases once they begin trading. The biggest one of them all, Facebook, the one with 900 million active users, with $3.7 billion in revenue and $1 billion in net income last year, certainly didn't.

"The No. 1 piece of evidence against a bubble mentality is what happened with Facebook," Sabnani says. "The fact that Facebook is a soft IPO shows how much more rational the market is now."

Duncan Davidson, managing director at VC firm Bullpen Capital agrees. The Internet bubble of the 1990s saw a lot of big IPOs burst because "there were crappy companies going out."

"Facebook is not a crappy company. This is just a blip in the poorly handled offering," he says.