

Facebook at half-price: which way now?

August 21 2012, by Paul Handley



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Three months after the largest tech share issue ever on US markets, Facebook fell to a new low below \$19 a share, compared to the \$38 underwriters charged for the 421 million shares they sold.

Although the stock bounced back to close at \$20.01, IPO investors were still holding huge [losses](#) with, analysts said, not much hope of a quick reversal.

Some key investors were still cashing out -- on Thursday and Friday, [billionaire](#) Peter Thiel, who invested in Facebook first in 2004, sold off nearly 80 percent of his huge holding, according to a filing with the [Securities and Exchange Commission](#) Monday.

Thiel's average price for 20.6 million shares was \$19.73 -- still a handsome profit for such an early backer of the website, but not a demonstration of confidence in the company's potential to rebound.

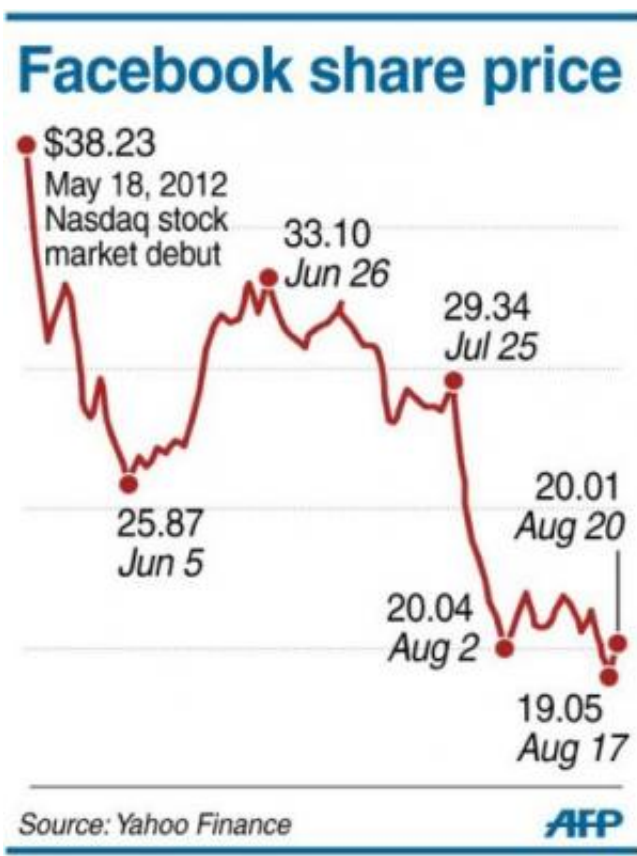
Facebook raised \$16 billion when it went public on May 18, giving it a nominal market value of a stunning \$104 billion and raising hopes of a new dotcom boom on US markets.

The company's business promise was huge: marketing access to the 900 million users of the world's leading social network and data about them that marketers prize.

But analysts said that the large number of shares sold, the high IPO price, and the overall skittishness of investors in a soft overall economy, have undermined market support for the company.

"They just put way too many stocks out at once... before the market was ready to absorb so many shares," said Michael Pachter of Wedbush Securities.

The price struggled around the \$30 range in the weeks after the issue, with the underwriters undergoing a beating and [lawsuits](#) for allegedly having privately lowered their earnings forecasts for the company days before the IPO.



Graphic charting Facebook's shares since the May 18 debut on the Nasdaq stock market.

The shares then fell to the low-\$20s range at the end of July when Facebook issued an uninspiring quarterly earnings report.

And last Thursday the price plummeted when a ban on pre-IPO investors such as Thiel selling their shares was lifted -- many apparently sold.

That lockup applied only to 270 million shares. Another 1.2 billion shares, those controlled by Facebook employees, will be freed from lockup on November 14.

While undoubtedly Facebook founder Mark Zuckerberg and other top

figures will hold on to most of their shares, anything added to [market](#) liquidity is, at this point, downward pressure on the price.

Analysts are debating whether the stock is now a bargain based on Facebook's earnings potential.

"Over the long term, the trade is about the fundamentals of the business, and the fundamentals remain very positive," Pachter told AFP. He called the problem of a share oversupply "just noise".

Social media expert Lou Kerner also downplayed the selling pressure.

"We remain very positive," he said. "Facebook will figure how to monetize mobile, the dollars will find their way."

New York University finance professor Aswath Damodaran was more skeptical. After Facebook's quarterly earnings report, he cut his original \$27 a share "intrinsic value" estimate to below \$24.

"The earnings report was a disappointment to markets, revealing less revenue growth than anticipated and an operating loss."

But at \$19, he still is not sure of the investment's merit, given the potential overhang of sellers.

"Facebook remains a company with vast potential (their user base has not shrunk), no clear business plan (is it going to be advertising, product sales or something else) and poor corporate governance," he wrote on his blog Musings on Markets.

"Eventually, the 'intrinsic' truths will emerge, but it may be a long time coming."

Another longtime bear on the stock, Trip Chowdhry of Global Equities Research, retains deep doubts even at \$19 a [share](#).

"Facebook doesn't have the technology to monetize social actions," he said. "With what we know right now, the price should be in the low teens."

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