

Facebook outlook still muddled one year after IPO

May 17 2013, by Rob Lever



Apple iPhone displays the Facebook app's splash screen in Washington. A year after a nightmarish share offering, Facebook still has its ardent backers and detractors.

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The world's biggest social network, which now has more than 1.1 billion users, has managed to boost its earnings since the initial public offering,

including from its mobile platform, important in countering its critics.

The IPO on May 18 last year sparked a series of crises for Facebook, with the shares plunging from \$38 to as low as \$17.73 in September.

Shares closed Thursday at \$26.13.

A year ago, the company faced doubts on whether it could boost revenues and adapt to the shift to mobile computing. The IPO also sparked accusations on whether investment banks withheld key data, and a trading glitch led to claims of tens of millions of dollars in damages against the Nasdaq exchange.

Since then, however, Facebook has lifted its profits, and boosted the mobile segment to 30 percent of ad revenues in its most recent results, which generally beat Wall Street estimates.

Facebook's share price has stabilized in a range of \$25 to \$28, and even some of its early critics are offering grudging praise.

"It has a better strategy. It seems a little more mature," said Trip Chowdhry at Global Equities Research, a skeptic at the time of the Facebook IPO.

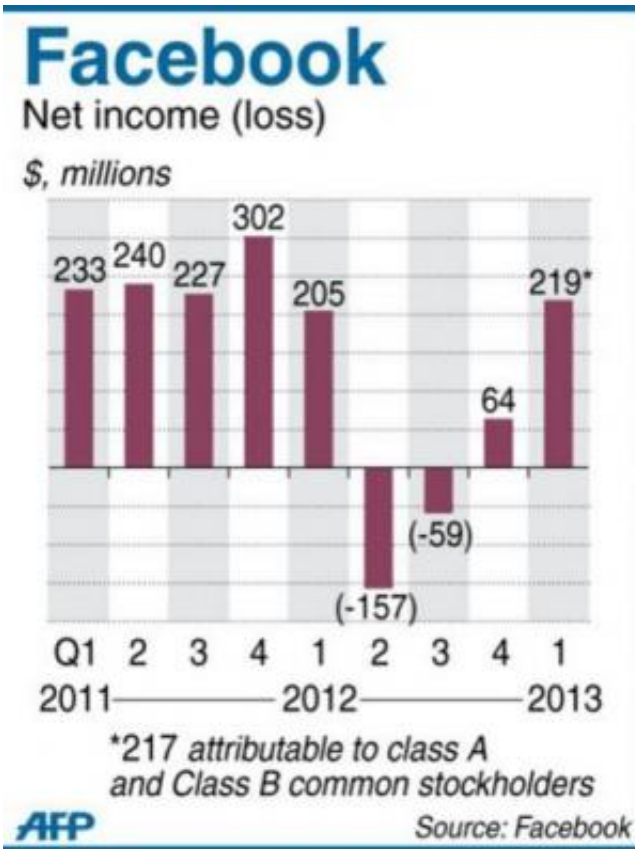
Chowdhry has an "equal weight" rating and a price target of \$28, suggesting Facebook has some potential to rise if it executes well.

"Facebook is the undisputed leader in the segment. Nobody even comes close," Chowdhry told AFP.

He maintained that Google+, the social network from Facebook's Silicon Valley rival, "has not put even a single dent on Facebook."

Still, the analyst is cautious on Facebook, saying it needs to keep innovating to find ways to keep users engaged.

"They can't be too greedy," he said. "They need to put product before monetization."



Graphic charting net quarterly income for Facebook since 2011.

Chowdhry said that if Facebook goes too heavy on ads, it will turn users away "and they could become the next MySpace," the failed social network which led the sector before Facebook.

Some analysts remain lukewarm about Facebook because of its high

price-earnings ratio—Wall Street measure of share price against profits. Even with optimistic profit projections, Facebook's ratio is around 70, compared with around 27 for Google and 10 for Apple.



Facebook CEO Mark Zuckerberg speaks at the San Francisco Design Center in September 2011. The world's biggest social network, which now has more than 1.1 billion users, has managed to boost its earnings since the initial public offering, including from its mobile platform, important in countering its critics.

Analyst Stephen Ju at Credit Suisse said Facebook delivered "solid" results and "our bias remains positive," but that shares "are already reflecting the near-medium term benefits" of its recent efforts.

Nicholas Landell-Mills at Indigo Equity Research said it was hard to know if Facebook's high price is justified.

"Facebook is still evolving and many products are still at an early stage of development," he said in a research note.

"Facebook needs to revolutionize online display ads to raise ad returns and prices."

Lou Kerner, manager at The Social Internet Fund and a longtime Facebook bull, said the company is "executing quite well."

"They've come up with better mobile apps that people engage with, and they have shown some ability to monetize that," Kerner said.

In the past year, Facebook has ramped up its advertising efforts, especially for mobile, has tweaked its News Feed and launched Graph Search, a way to find postings within the network. It has also launched its own smartphone platform called Home which puts Facebook on the start screen for Android handsets.

Kerner said that as Facebook has matured, "it isn't cool anymore" but that many people need to use it to connect with friends, brands and celebrities because of its reach.

"You can connect in a way that you can't anywhere else," he said.

Even though investors remain cool about Facebook, Kerner said he remains "very bullish."

"The market has never seen something like Facebook and I don't think people have had a chance to evaluate the risks and the opportunities of Facebook," he said.

"I invest in companies that leverage the Facebook platform and those companies are doing very well."

Independent technology analyst Jeff Kagan said, however, that Facebook has flopped with its new mobile phone platform and has yet to prove it can deliver enough profits to justify its share price.

"The magical Facebook brand has never materialized," he said.

Kagan said Facebook faces a conundrum because it has failed to take steps to adequately monetize the vast amount of customer data it has, but that "if they do that it will turn people off."

Richard Greenfield at BTIG Research said Facebook faces a real threat from Google+, saying it is "methodically drawing consumers and businesses" into its ecosystem.

"While many view Google+ as a failure because consumers do not actively update their friends... we view Google+ as a direct attack on Facebook's control of your online social identity," Greenfield said.

"Google is rapidly enhancing the value to consumers of the Google+ social identity, given its control of search, mapping, android.

"Ultimately, being a part of Google's ecosystem offers far more value to Internet users (not to mention advertisers) than Facebook, which should give them a meaningful advantage in the social ID war with Facebook," he added.

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