

Facebook's \$16 billion IPO one of world's largest (Update)

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A Facebook logo is displayed on the screen of an iPad, Wednesday, May 16, 2012 in New York. Facebook's initial public offering is one of the most hotly anticipated in years. The company is likely to have an estimated market valuation of \$100 billion when its shares begin trading on the Nasdaq stock market on Friday. (AP Photo/James H. Collins)

(AP) -- Facebook is about to find out just how much status updates, puppy photos and billions of "likes" are worth on Wall Street.

Facebook's stock is set to begin trading on the Nasdaq Stock Market on Friday, the day after the world's definitive online social network raised \$16 billion in an initial public offering that valued the company at \$104 billion. That's more than Amazon.com and other well-known companies such as Kraft, Walt Disney and McDonald's.

It's a big windfall for a company that began eight years ago with no way to make money.

Facebook priced its IPO at \$38 per share on Thursday, at the top of expectations. Now, regular investors will have a chance to buy stock in Facebook for the first time. The stock will trade under ticker symbol will be FB.

Facebook's offering is the culmination of a year's worth of Internet IPOs that began last May with LinkedIn Corp. Since then, a steady stream of startups focused on the social side of the Web has gone public, with varying degrees of success. It all led up to Facebook, the company that's come to define social networking by getting 900 million people around the world to share everything from photos of their pets to their deepest thoughts.

It has done so while managing to become one of the few profitable Internet companies to go public recently. It had net income of \$205 million in the first three months of 2012, on revenue of \$1.06 billion. In all of 2011, it earned \$1 billion, up from \$606 million a year earlier. That's a far cry from 2007, when it posted a net loss of \$138 million and revenue of \$153 million.

"They could have gone public in 2009 at a much lower price," said Nick Einhorn, research analyst at IPO investment advisory firm Renaissance Capital. "They waited as long as they could to go public, so it makes sense that it's a very large offering."

Facebook Inc.'s valuation is the third-highest in an IPO, according to Dealogic, a provider of financial data. Only two Chinese banks, Agricultural Bank of China in 2010 and Industrial and Commercial Bank of China in 2006, have been worth more. They were worth \$133 billion and \$132 billion, respectively. By another measure -the amount raised-

Facebook ranks third among U.S. IPOs. The largest was Visa, which raised \$17.9 billion in 2008. No. 2 was Enel, a power company, and No. 4 was General Motors, according to Renaissance Capital.

The \$38 share price is the price at which the investment banks arranging the offering will sell the stock to their clients. In an IPO, the banks buy the stock first from the company and the early investors and then sell to the public. If extra shares reserved to cover additional demand are sold as part of the transaction, Facebook and its early investors stand to reap as much as \$18.4 billion.

For a company that was born in a Harvard dormitory and went on to reimagine online communication, the stock sale means more money to build on the features and services it offers users. It means an infusion of money to hire the best engineers to work at its sprawling Menlo Park, Calif., headquarters, or in New York City, where it opened an engineering office last year.

And it means early investors, who took a chance seeding the young social network with start-up funds six, seven and eight years ago, can reap big rewards. Peter Thiel, the venture capitalist who sits on Facebook's board of directors, invested \$500,000 in the company in 2004. He's selling nearly 17 million of his shares in the IPO, which means he'll get some \$640 million. He will hold on to about 28 million shares, worth \$1.06 billion.

The offering values Facebook, whose 2011 revenue was \$3.7 billion, at as much as \$104 billion. The sky-high valuation has its skeptics, who worry about signs of a slowdown and Facebook's ability to grow in the mobile space when it was created with desktop computers in mind. Rival Google Inc., whose revenue stood at \$38 billion last year, has a market capitalization of \$207 billion.

"There seems to be somewhat of a hype around the stock offering," says Gartner analyst Brian Blau.

That may be an understatement.

Facebook's IPO dominated media coverage in the weeks and days leading up to the event. CEO Mark Zuckerberg's hoodie made headlines when he wore it to a meeting with investors as did General Motors' decision this week to stop advertising on the site -and rival Ford's affirmation that its Facebook ads have been effective.

There are more than a few reasons for the exuberance. First, there's Facebook's sheer size and high profile. The company grew from a college-only social network to an Internet phenomenon embraced by legions of people, from teenagers to grandmothers to pro-democracy activists in the Middle East.

Secondly, it's personal.

"It's probably one of the first times there has been an IPO where everyone sort of has a stake in the outcome," Blau says. While most Facebook users won't see a penny from the offering, they are all intimately familiar with the company.

And then there's Zuckerberg, who turned 28 on Monday. He has emerged as the latest in a lineage of Silicon Valley prodigies who are alternately hailed for pushing the world in new directions and reviled for overstepping their bounds. He counted the late Apple CEO Steve Jobs among his mentors, and he became one of the world's youngest billionaires - at least on paper - well before Facebook went public. A dramatized and less-than-flattering version of Facebook's founding was the subject of a Hollywood movie that won three Academy Awards last year, propelling Zuckerberg even further into the public spotlight.

Though Zuckerberg is selling about 30 million shares, he will remain Facebook's largest shareholder. Even after the IPO, he will own 503.6 million shares, or 32 percent of Facebook's total shares. At the \$38 share price, his stake in the company is worth \$19.1 billion. Zuckerberg will control the company with 56 percent of its voting stock as a result of agreements he has with other shareholders who promise to vote his way.

The set-up helps to ensure that he and other executives keep control as the demands of Wall Street for short-term returns exert new pressures on the company.

True to form, Zuckerberg and Facebook's engineers are ringing in the IPO on their own terms. The company is holding an overnight "hackathon" Thursday, where engineers stay up writing programming code to come up with new features for the site. On Friday morning, Zuckerberg will ring the Nasdaq opening bell from Facebook's headquarters a continent away.

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