IPO Registration

DAMODARAN VALUATIONS FOR FB IPO

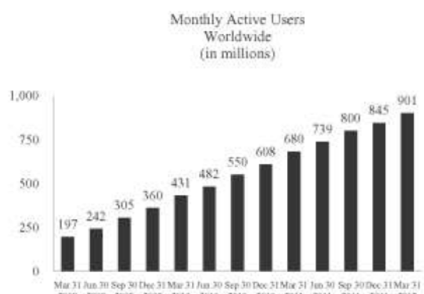
https://aswathdamodaran.blogspot.com/2013/07/facebook-hits-ipo-price-mood-swings-in.html
https://aswathdamodaran.blogspot.com/2012/05/facebook-hoodies-hubris-and-hoopla.html
https://aswathdamodaran.blogspot.com/2012/02/ipo-of-decade-my-valuation-of-facebook.html

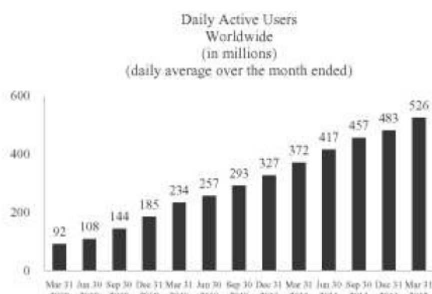
GENERAL IPO INFORMATION:

- Estimated initial price between 34 and 38.
- Two types of stocks (Class A and B):
    - Worth the same, only difference is in voting rights.
        - Class A = 1 vote
        - Class B = 10 votes.
            - Controls 95.9% of voting rights.
            - Mark Zuckerberg controls 55.8% of voting rights.
            - Convertible at any time to Class A stocks in order to be sold.

ABOUT THE COMPANY:

- Current number of active users = + 900 million
- Current business model:
    - Developers can use platform to reach global network to build products that are more personalized, social and engaging.
    - Advertisers can reach a targeted audience based on the information users provide Facebook. The company offers a combination of reach, relevance, social context, and engagement to enhance the value of their ads.





ABOUT THE MARKET:

- According to IDC report, 2010 ad spending was 588 billion.
    - Addressable market includes portions of many existing ad markets (online - including mobile - and offline)
- Payment infrastructure:
    - When users purchase virtual and digital goods using FB payment infrastructure, they receive fees that represent a portion of the transaction value.
        - Currently all are virtual goods used in social games.
        - Current market is $9 billion (2011)
        - Forecasted to increase to $14 billion by 2016.
- Current strategy includes expanding to markets like Brazil where they have low penetration
    - [ ] Maybe research if use of social media per country can be validated for that moment in time.
- They believe that mobile usage of FB is critical to maintaining user growth and engagement over the long term so they see mobile as an opportunity even if they haven't yet figured out how to monetize it.
    - More specifics of strategy included in initial summary of the document.

RISKS:

- Growth of use of FB through mobile where monetization is still unproven.

- They establish their business as being highly competitive.
    - ☐ Validate at this time which would be their competition. As most of their revenue came from advertisement, should regular advertisement be considered as competition or should online venues be considered their own segment? TO PONDER ON.
- Uncertainty with privacy regulations.
- CEO has control in voting stocks.
    - Since they are a controlled company, they do not required to have the majority of their board as independent.

FINANCIAL NOTES:

- Proforma data is considering what they expect to earn with the IPO taking into account an average price of $36/ share.
    - Data will be adjusted post IPO to reflect the actual amount as it would change balance sheet results.

RISK FACTORS IN DETAIL:

- Decline in active users.
    - ☐ Can validate against market what the status of social media penetration was at the moment to understand how probable this might have been at the time. So far, FB was gaining more users consistently so there isn't necessarily a clear sign that this was really a risk at the time.
    - ☐ Validate which other social media companies were at the moment present. They mention how other social media companies gained users that they later lost.
- Reduction of investment in advertising by clients.
    - Currently approximately 90% of revenue comes from this source.
    - No long commitments
    - Many see some of their products as experimental (sponsored stories/ ads with social context)
    - If users continue to switch to mobile it can affect results due to the fact that most their ads are shown in PC.
- ⭐ Growth in use of mobile products:
    - They are focusing on developing mobile products
    - Are already making some revenue but mostly limited. Most of the potential with mobile revenue is currently now unproven.
- Dependency on mobile operating systems and networks that are out of their control.
- Ability to attract and retain app developers who might choose the competitors or other mediums in order to develop their apps.
    - They have in the past reduced communication to their users in order to enhance experience and this has already caused problems with developers.
    - Depend on developers in order to offer social experiences through the website mainly through games.
    - Also have 2 income source from developers including ads promoting their apps as well as digital purchases.
- Highly competitive market:
    - Main competitors include Google, Microsoft and Twitter.
    - Also competes with traditional online and offline advertising for company budgets.
- Governments restricting access to Facebook.
- Efforts to expand Facebook Platforms may move engagement to developer platform pages instead of Facebook main page where they show advertisement.
- New products and/or changes to old products can fail to attract or retain users.
- Culture that prioritizes innovation and user engagement over financial results.
- Brand being negatively affected
- Improper access or disclosure of user information.
- Unfavorable media coverage
- Fluctuation in financial results that make them difficult to predict.

- High dependency on maintaining a good relationship with Zynga which represented approximately 11-12% of their total revenue taking into account payments and advertising done by them. Zynga's apps also generates pages where FB posts advertisements.
    - Zynga has recently launched games on its own website and on non Facebook platforms and may choose to migrate users.
- Rate of growth can be expected to decline in the future.
- Company is subject to US and foreign laws/ regulations regarding privacy.
- FB has been subject to regulation investigations and settlements.
- Inability to protect intellectual property.
- FB is currently and expects to continue to be subject to patent lawsuits and well as other types of lawsuits from competitors, users and advertisers.
- Mark Zuckerberg controls key decision making due to having 55.8% of voting rights.
    - Could discourage investors from wanting to purchase Class A stocks due to its voting power vs Class B common stocks.
- FB will need to expend substantial funds in connection with the tax liabilities due to RSUs following their IPO.
- Not certain that additional financing will be available in reasonable terms or at all.
- Costs are growing quickly
- Business is dependent on ability to maintain and scale tech infrastructure.
- Recently began to own and build key portions of their technical infrastructure and could experience unforeseen difficulties due to their inexperience in this area.
- Software is highly technical and if it contains undetected errors it could adversely affect the business.
- Challenges in measurement of user metrics.
    - False and duplicate accounts may represent 5-6% of monthly active users.
    - Estimation of false and duplicate accounts may not accurately represent the actual number of such accounts.
    - Metrics also affected by apps in mobile devices that automatically contact their servers for regular updates with no user action involved (estimated that less than 5% of estimated worldwide DAU resulted from this).
    - Geographical location can also have errors due to taking location of connection if information is not disclosed by user.
    - This information being wrong may cause developers and advertisers to loose faith in FB and reduce their investments.
- Cannot assure that they will effectively manage their growth.
- Loss of key personnel or failure to attract and retain other highly qualified personnel in the future.
    - Specially loss of Mark Zuckerberg or Sheryl Sandberg.
- Liabilities due to information retried from or transmitted over the internet or posted to FB
- Computer malware, viruses, hacking and phishing attacks.
- Payment transactions on the FB Platform may subject them to additional regulatory requirements and other risks that may be difficult to comply.
- Expansion abroad where they have limited operating experience.
- They plan to continue making acquisitions
    - In April 2012, FB entered into an agreement to acquire Instagram.
- Defaulting their lease/ credit obligations.
    - They finance a significant portion of their expenditures through leasing arrangements - validate they debt to capital ratio.
    - They state that some of their arrangements are not required to be reflected in their balance sheet.
- Exposure to greater than anticipated taxes liabilities.
- Changes in taxes regulations.

OTHER RISKS RELATED TO IPO

- FB does not intend to pay dividends for the foreseeable future.
- CEO and main executives have controlling power over the company with over 95% of voting rights through their Class B stocks which represent a 10:1 voting ratio versus the Class A common stocks. When Class B common stocks are transferred, they will convert into Class A common stocks.
    - They also have bylaws that protect against the acquisition of their company where if Class B stocks at some point become less than 50% of the overall voting power, the rules over how decisions are made change. See page 41 of the PDF (#38 as written in the document) for more detail.

GENERAL NOTES:
- Costs and expenses include share-based compensation expense. Detail specified in 10K as to where costs are allocated.
- Measure FCF as a non-GAAP measure:
    - Defined as: Net Cash provided by operating activities - CapEx (taking into account also those acquired under capital leases).

MANAGEMENT DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS:
- History of the company:
    - Facebook Mobile was launched in April 2006
    - First version of FB API - August 2006
    - FB Platform with 65 developers and 85 applications - May 2007
    - Self service ad platform and FB Pages - November 2007
    - Introduced Like Button - February 2009
    - Launched FB Payments - May 2009
    - Introduced Graph API and Social plugins (to integrate to FB platform) - April 2010
    - EXCEL WITH REV & MAU GROWTH IN IPO FOLDER.

- **User metrics:**
    - ***Monthly Active Users (MAUs)****:* user registered to FB who logged in and visited FB through website, mobile device, or took an action to share content/ activity with friends/ connections via 3rd party websites integrated with FB in the last 30 days.
        - Currently divided pretty equally in different regions.
        - Experienced high growth in Brazil and in India.
        - Currently according to an IDC report dated august 2011, there are more than 2 billion global internet users and FB aims to connect all of them.
        - Have 0% penetration in China where access to FB is restricted.
        - Continues to invest in growing user base, specifically in markets where there is lower penetration.
        - Expect that MAU will also be benefited by the increase in worldwide internet users as increase in broadband penetration continues as well as mobile devices in developing markets.
        - Growth depends on ability to retain users, re-engage with inactive users, and add new users, including extending reach in mobile.
    - ***Daily Active Users (DAUs):*** user registered to FB who logged in and visited FB through same sources as MAUs on a given day. Measure numerical value as well as a percentage of MAUs (user engagement).
        - Currently around 57-58%
        - Increased mobile usage was a key contributor to growth of 41% in DAUs.
        - Positive effect: increase in user engagement may enable FB to deliver more relevant commercial content and may provide more opportunities for monetization.
        - Growth depends on ability to attract new users and increase the frequency of engagement for existing users.

    - Working on developing products that are more compelling, increasing relevance of information displayed and increasing number of compelling platform apps and website integrations and improving products across mobile platforms.
    - Also estimate that younger users will have higher levels of engagement as they have grown up with the web and mobile devices and will likely spend more time online.
- ***Mobile MAUs:*** accessed FB through mobile app or via mobile optimized version of the website - whether mobile phone or tablet.
  - Growth driven by increased consumer usage of mobile devices generally as well as product enhancement across several mobile platforms.
  - Acquired Snaptu in 2011:
    - was a free Israeli-made mobile application platform that ran on virtually every type of Internet-enabled mobile phone. It allowed the user to access popular services, varying from social networks like Facebook, Twitter, Flickr, ESPN CricInfo and Picasa to entertainment news, blogs, sports and local guides.
    - According to Israeli publication Globes, the deal is worth US$60–US$70 million.
    - FB worked with them on developing the mobile app before being acquired. After acquisition, deleted from server other apps.
  - Historically not shown ads to user accessing FB through mobile app or website.
    - Recent implementation of sponsored stories in the users' mobile News Feeds in March 2012.
- ***Average revenue per user (ARPU):*** total revenue during a given period divided by the average of the number of MAUs in the geography.
  - During the first quarter of 2012, worldwide ARPU was $1.21, a 6% increase from the first quarter of 2011.
  - ARPU increased 32% from $3.08 in 2009 to $4.08 in 2010 and 25% to $5.11 in 2011. Growth was experienced across all regions.

- **Factors Affecting performance:**
  - New users in other regions do not require material incremental infrastructure investments. FB is able to utilize existing infrastructure such as data centers in the US to make products available.
  - Growth in user engagement:
    - Increases opportunities to display ads and ability to deliver relevant commercial content.
    - Generally increases expenses and CapEx required to support user activity.
    - % of user creating content has remained stable as amount of users has grown.
    - Average amount of content per user has continued to increase over time.
  - Increased reserve price in Q4 2011 (minimum price threshold).
    - Impact on total revenue was minimum. Even though FB presented a price increase, there were less ad offers.
  - Investment in infrastructure:
    - Began serving user traffic out of owned and built datacenters since April 2011.
    - FB developed designs for datacenters, server hardware and software that were optimized for use in their new facilities resulting in significant increase in energy efficiency while significantly reducing server operation costs compared to usage of traditional servers and leased datacenter.
  - Plan on continuing acquiring companies. Agreed to buy Instagram in April 2012 and some patents from AOL
  - For stock based compensation, they will use accelerated attribution method in order to expense RSUs

REVENUE

- Advertising: based on Impresiones (ads shown to users on website) and through click-based ads (when the user actually clicks on the ad)
- Payments: through FB platform used by developers. Mainly proceeding from games. FB receives a fee from each transaction and reports the revenue net of what corresponds to developers. High dependency on Zynga for this source of revenue.
    - Dependency has increased from 2009 to 2011 from less than 10% In both 2009 and 2010 to 12% in 2011.

COSTS

- Practically expect all costs to increase both in value and percentage vs revenue due to investments in growth
    - General increase in headcount causing payroll, benefits and employee options to increase.
    - Cost of revenue mainly due to increase in data center expenditure, including increase in depreciation.
    - Marketing and sales increase related to increase in headcount.
    - Increase in R&D affected mainly by post 2011 RSU expense. Aldo increase in payroll and benefits
    - General and administrative was increased due to payroll and benefits

TAXES

- ★ FB income tax well above US tax due to international presence where they have no benefits - evaluate if US tax should be the one taken into account for tax payed by FB.

TRENDS

- Advertising has seasonality, especially in last quarter.

- Agreement of buying Instagram included both shared and cash (see page 73 for details)
    - Plan to leave instagram as an independent app and to enhance photo sharing in FB.
    - FB agreed to a 200 million USD termination fee if the government does to approve of the acquisition and it has to be terminated.
- Agreement to buy AOL patents also require cash expense of 500 million

OTHER NOTES

- Started capitalizing shared based compensation after Q2 2012
- FB main focus is to connect people, make an easier way for more people to be able to communicate and push towards brand creating better product by connecting people to brands and making products more personalized and interactive. They also expect a better relationship between the people and the government by connecting them and providing means for people to voice their opinions.
- They say they believe more in creating better products for people than in maximizing profit.
- Going public because of the commitment with employees and investors of giving stocks that they would work hard so that they could later trade at a premium.
- Company philosophy is the hacker way: The Hacker Way is an approach to building that involves continuous improvement and iteration.
    - They have hackathons every couple months in order to create prototypes of products.
    - Philosophy of better done than perfect.
    - Require all personnel to go through Bootcamp which teaches them FB code base and tools, even managers who don't work with code on a day to day basis. They are looking for a hands on approach from all their team members.
- The web has become a social place
    - Before surfing the web was an anonymous experience where everybody saw the same thing. Now with the advances in data processing the experience becomes more personalized and interactive.

- Because authentic identity is core to the user experience on Facebook and users generally share information that reflects their real interests and demographics, we are able to deliver ads that reach the intended audience with higher accuracy rates compared to online industry averages.
    - Much higher accuracy than competition due to the increase in data the users are willing to give FB
- Ad addressable market is 588 billion US
    - Offline (tv, radio, and print) cover 62% in 2010.
    - Online Advertising. From 2010 to 2015, the worldwide online advertising market, excluding mobile advertising, is projected to increase from $68 billion to $120 billion, representing 12% and 16%, respectively, of the worldwide advertising market according to an IDC report dated August 2011.
        - Display advertising: typically includes banners, interstitial, video ads and rich media ads that aim to target a large amount of people. Run impression-based campaigns. Also use FB to more precisely target and reach their audience and leverage on social context and distribution channels to increase engagement.
        - Performance based ads: typically involves seeking specific user behavior such as clic on a search ad or keyword based content ad, response to email campaign or online purchase.
        - Mobile ads: market was 1.5 billion in 2010 and is expected to grow at 64% CAGR to 17.6 billion in 2015.
- Payment market: 9 billion market in 2011 and expected to grow to 14 billion by 2015.
- Social games have increased in use in FB and are planning to develop additional apps that can be connected.
- User engagement with developers in increasingly important as they create value together. As developers make new apps that are interesting for users, it increases engagement overall, the use of the payment systems and developers also pay for adds for their product. FB is focused on developing a better system and tools for them.
- FB was the most popular photo uploading service in 2012. Aims to be the best source of messaging communication incorporating sms, email and chat.
- Current fee for payment platform is up to 30%.

Competition

- Competitive landscape including google, twitter and Microsoft
- Also competition from internet providers or smaller companies which compete with some part of FB - competition is very segregated in the industry.
- Competes with offline and online for budget of companies who need to do advertising
- In some countries, compete with other social media companies which are big in those regions including emerging market like Brazil where FB is looking to grow in the next years.
- Also high completion in the job market for employees, especially in San Francisco where they are based.

Technology

- Products focused on advertisers, programmers and users. Main focus is to make interactions more social so everything is driven towards having better user experience in the platform.
- Focus on data management and personalization - vast and growing amounts of data must be analyzed in milliseconds.
- FB is building proprietary datacenters in order to make data manipulation more efficient and better optimize economies of scale - making each additional user reduce the expenses per users by having a more efficient data processing format.
- FB believes that the best experience a user can have is by showing them the ad that caters best to their needs according to the information shared by the users.

Sales and Operations

- Most advertisers manage their own advertisement requirements through the self-service platform but FB does have a sales force focused on attracting and retaining advertisers as well as providing support to them in their different stages - currently operate 30 sales offices around the globe.

Management

- Seems to have and experienced staff which adds positively to the business.
    - Sheryl Sandberg: started in March 2008 as COO - before this date she served various positions at Google. Also has experience in the US Government.
    - David B. Fischer: started in April 2010 as VP Marketing and Business Partnerships - Also comes from Google and served as well in the US Government.
    - Mike Schroepfer: started September 2008 as VP of Engineering - comes from Mozilla and also has experience in other tech companies specifically in datacenters.
    - Early investors also have experience in technology sectors including social media companies.

Board Composition

- Due to his controlling power, Zuckerberg can elected designees for the board and has appointed many of the current members.
- The board also determines the number of people that compose it.

Executive compensation

- As a privately owned company focused highly equity (RSUs and options) - cash compensation is well below the norm in the market.
    - When compared to the Peer Group which includes companies like Google, Apple and Microsoft, in cash terms, FB was in the lower 25th percentile group for their compensation package to their executives. When factored in the full package - including the equity portion - they were in the 99th percentile.
- Because of Zuckerberg's controlling position and importance to the company, he has security issued to himself which is charged to the company. He and the COO can also use private aircraft for business. In the case of CEO, he can use it as well for personal issues and is considered as part of his salary in the other compensation part also described.
    - Personal use of aircraft by CEO and family/ friends represented approximately 45% of Zuckerberg's compensation for 2011 year.
- As of January 2013, Zuckerberg's base salary is to be reduced to $1 USD as per his request. Currently his base salary is USD$500,000.

Stocks:

- 27.5% of MZ’s voting power comes from an agreement with certain stockholders who gave him the authority to vote on their behalf.
- FB has registered securities and has also some bylaws that could possibly intervene in the case of a hostile takeover even if Class B stocks represent less than 50% of voting power for the company. It also includes some rules giving Class B stocks more power even if as a whole they do not represent over 50% of voting power.

Notes for Financial Statements

- FB has cash put aside for uncollectable revenue. Validate the percentage of account receivable against their earnings as well as bad debt which they have had to recognize against their doubtful accounts fund as it has been rising significantly. ($1 million -2009 | $8 million - 2010 | $9 million - 2011).
- Only customer that represents more than 10% of revenue is Zynga with 12-13%.
- They have construction in progress of datacenters in the US and Sweden as well as their new office in California.
- They have intangible assets which are from acquisitions. Currently they are in the process of buying Instagram but validate which other acquisitions they had done in the past.

- ☐ They have operating leases - must be considered since at the time the company was not obligated to take into consideration.
- ☐ FB has preferred stocks, but they convert to Class B common stock with the public offering.
- 2012 Equity Incentive Plan will replace the 2005 Stock Plan. It provides for automatic increase in the amount of shares each year which gives way for FB to continue to provide equity as part of their compensation packages.

IPO Related News

Is Facebook Ready for Its IPO?

https://www.wsj.com/video/is-facebook-ready-for-its-ipo/71A84669-04E2-49F5-A0B1-64104636F94D.html?mod=Searchresults_pos19&page=21

Facebook Buys Instagram for $1 Billion

https://archive.nytimes.com/dealbook.nytimes.com/2012/04/09/facebook-buys-instagram-for-1-billion/

- It's a notable move for Facebook, which has exclusively focused on bite-size acquisitions, worth less than $100 million.
- With Instagram, Facebook will get a formidable mobile player – an area that is seen as a weakness for the sprawling social network.

In Facebook Deal, Board Was All But Out of Picture

https://www.wsj.com/articles/SB10001424052702304818404577350191931921290

- Mr. Zuckerberg ditched all that. By the time Facebook's board was brought in, the deal was all but done. The board, according to one person familiar with the matter, "Was told, not consulted."
- Mr. Zuckerberg owns 28% of Facebook's stock, and controls 57% of its voting rights, giving him the freedom to act independently if he wants. Mr. Systrom, similarly, owns about 45% of his company. That control means investors must accept the fact that the CEOs can move quickly.
- Facebook's chief operating officer, Sheryl Sandberg, learned the Thursday before the deal from Mr. Zuckerberg that he intended to push to acquire Instagram, though she wasn't directly involved in the negotiations, according to a person familiar with the matter. Ms. Sandberg, 42 years old, joined Facebook from Google Inc. in 2008 in part to provide more professional executive support to the company's CEO. Mr. Zuckerberg's handling of the Instagram acquisition is a reminder that Facebook is still in some respects a one-man show.
- The three-day sprint to the deal started on April 5, when Mr. Zuckerberg picked up the phone and asked Mr. Systrom to meet. At the time, Mr. Systrom was just hours from signing a deal for a $50 million venture-capital investment that would put a $500 million value on his company, which had just 13 employees and no revenue. Mr. Zuckerberg had been interested in acquiring Instagram since the previous summer and had decided it was time to do a deal.
- Wall Street's traditional rules for valuing companies offer little help in putting a number on a company like Instagram. While the start-up, just 18 months old, had no revenue, its fast growth gave Mr. Systrom leverage. His company is strong where Facebook has been weak—on devices like the iPhone—and took aim squarely at Facebook users' favorite activity, sharing photos.
- Instagram makes a smartphone "app" that lets people take photos, dress them up with special effects, and easily share them with friends. In the first three months of this year, its user base nearly doubled, to about 30 million, the company says.
- After Instagram released a version of its app for phones powered by Google Inc.'s Android software on April 3, the user base shot up again, to around 35 million at the time of the Facebook deal.
- Facebook was falling behind in mobile as younger start-ups were innovating more quickly.
- Mr. Zuckerberg, who planned to pay for Instagram mostly with stock, asked Mr. Systrom what he thought Facebook would be worth, the people said. If he believed Facebook would one day be worth as much as a

company like Google at $200 billion or more, then the equivalent of 1% of Facebook would be sufficient to meet his price, Mr. Zuckerberg told Mr. Systrom, the people said.

- Mr. Zuckerberg also offered Mr. Systrom assurances that Instagram could remain independent under Facebook.

GM Says Facebook Ads Don't Pay Off

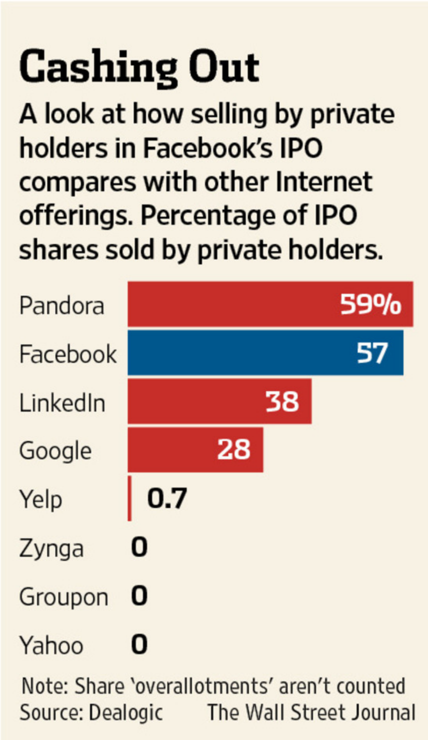
https://www.wsj.com/articles/SB10001424052702304192704577406394017764460

- The move by GM, one of the largest advertisers in the U.S., puts a spotlight on an issue that many marketers have been raising: whether ads on Facebook help them sell more products. On Friday, Facebook is expected to sell shares in an initial public offering that could put a market value on the company of as much as $104 billion.
- GM will continue to promote its products on Facebook, but without paying the social-media company, the GM official and other people familiar with the matter said. Many companies maintain free Facebook pages.
- GM's decision raises questions about the ability of Facebook to sustain the 88% revenue growth achieved in 2011. Facebook said last month its first-quarter ad revenue was down 7.5% from the previous three months. Facebook blamed "seasonal trends" for the decline, as well as a greater number of users from outside the U.S., where ad rates are lower.
- GM is the third-biggest advertiser across all media in the U.S. after Procter & Gamble and AT&T, T -0.10%▼ according to Kantar.
- At the meeting, Facebook criticized GM's approach of having multiple firms managing its advertising for the site
- Earlier this month, a top marketing executive from the U.S. division of Kia Motors questioned the value of Facebook ads, saying it was unclear how paid ads help sell cars. However, the South Korean auto maker said it still planned on increasing its ad spending on Facebook this year.
- "Companies in industries from consumer electronics to financial services tell us they're no longer sure Facebook is the best place to dedicate their social marketing budget—a shocking fact given the site's dominance among users," said Nate Elliott, an analyst at market research firm Forrester, in a company blog post on Monday.
- Other auto makers are more confident about Facebook's value as an ad outlet. "We have committed to Facebook for more than $5 million [in ad spending] this year and if the return on investment is there we will spend more next year," said Dean Evans, chief marketing officer of Subaru of America. "Half the U.S. population is on Facebook, you have to work it to learn it," he added. Mr. Evans said he has been happy with the return his ads have had so far.
- Keeping auto manufacturers engaged is critical for Facebook. The auto industry is the largest pool of U.S. advertising dollars and often can make or break a marketplace. Automotive companies and car dealers shelled out $13.89 billion on U.S. ads across all media last year, according to Kantar.
- "As long as Facebook is the bedrock of consumer engagement, advertisers can't ignore it," said Craig Atkinson, chief digital officer of PHD, a media buying firm owned by Omnicom Group Inc. OMC 2.82%▲ He noted, however, that Facebook has to prove "they can convert that fan engagement into a business outcome for marketers... It's about giving the finance people, who are cutting the checks, proof that its ad products work."

Facebook Insiders Boost Plans to Cash Out in IPO

https://www.wsj.com/articles/SB10001424052702303448404577407774136362662

- The change means that 57% of the offering will be coming from current holders, rather than from the company, an unusually high percentage for one of the most sought-after IPOs in years.
- In comparison, when Google went public in 2004, existing holders represented 28% of sales, according to Dealogic. Private holders sold no shares in the public offerings of Yahooand Amazon.com Inc. AMZN -1.57%▼ in the 1990s.
- Some investors welcomed the idea that more shares would be for sale. But others sounded a note of caution, saying the willingness to shed so much stock could indicate sellers think now is a good time to take gains.
- The worry is that early owners and employees who hold shares will sell six months after the offering, when sale restrictions are typically lifted, driving down the price.

- 

- Still, many institutional investors are seeing Facebook as a "must-own" stock given the company's rapid growth, even if they have qualms about the valuation,
- Facebook is eight years old, so for some investors with the company a long time, the IPO represents a chance to take some gains before that window closes for a while.

Morgan Stanley Revisits Facebook Trades; Investors File Suit

https://www.wsj.com/articles/SB10001424052702304707604577422063685311108

- Morgan Stanley said it was reviewing orders placed by its retail brokerage clients for Facebook shares on a trade-by-trade basis and will make price adjustments if those clients paid too much for the stock, according to people familiar with the situation.
- The orders in question occurred on Friday when Facebook made its market debut. The IPO was marred by trading glitches by the Nasdaq Stock Market, which delayed the start of trading in the social networking company by 30 minutes. Clients at Morgan Stanley and other brokerages also were left with orders that were processed improperly.
- The suit follows a report by Reuters that analysts at the Wall Street firms cut their revenue forecasts on Facebook amid the investor roadshow, a change that wasn't widely disseminated.
- Facebook had said in an amended filing that its mobile users were growing rapidly in the second quarter but that advertising revenue wasn't keeping pace. Following that report, several independent analysts issued new projections on revenue that were widely reported.
- Wednesday's lawsuit alleges the underwriters only "selectively disclosed" the analyst opinions, benefiting only some ahead of the IPO, which has underperformed hyped expectations.
- Morgan Stanley said in a statement Tuesday that it "followed the same procedures for the Facebook offering that it follows for all IPOs. These procedures are in compliance with all applicable regulations." The statement added that the analyst views were "taken into account in the pricing of the IPO."
- Facebook said in a statement that it believes the lawsuit is without merit and will "defend ourselves vigorously."
- Facebook's shares had suffered a sharp drop since the IPO, dropping 18% through Tuesday's close, before rebounding Wednesday up 3.2% to $31.99.

News covered with IPO Announcement:
https://www.wsj.com/articles/BL-DJAUB-450?mod=Searchresults_pos4&page=1

Facebook's Mobile Miscalculation

https://www.wsj.com/articles/SB10001424052702304791704577418260887981468

The severe Facebook revenue revisions that sent investors running

https://venturebeat.com/social/facebook-revised-revenue-estimates/

- In the convoluted case of the botched Facebook IPO, the story goes that the social network's underwriters, with guidance from a Facebook executive, reduced their 2012 earnings estimates, shared that material information with a few, preferred investors, and let institutional and retail investors take the hit as Facebook's stock value tanked.
- According to the projected numbers of four banks, as shared with Reuters by an anonymous investor, Facebook could report 5.45 to 7.28 percent less revenue in the second quarter of 2012 and 3.61 to 6.13 percent less revenue for the full year than originally anticipated. The underwriters also reportedly reduced Facebook's 2013 earnings per share estimates by has much as 7.35 percent.
- Facebook did file a revised S-1 on May 9, which spelled out that mobile was an even greater risk than originally stated. However, that warning, which stated that Facebook's daily active users (DAUs) on mobile are increasing more rapidly than the number of ads it delivers, did not come with Q2 2012 or full year 2012 earnings estimates.

IPO Wikipedia Post

https://en.wikipedia.org/wiki/Initial_public_offering_of_Facebook#cite_note-2

- The main reason that the company decided to go public is because it crossed the threshold of 500 shareholders, according to Reuters financial blogger Felix Salmon.
- Facebook reportedly turned down a $75 million offer from Viacom in 2006.[3] That same year, Yahoo! attempted to buy the company for $1 billion but Zuckerberg refused.[4] Also that year, *BusinessWeek* reported a $2 billion valuation for the company.[
- Zuckerberg wanted to wait to conduct an initial public offering, saying in 2010 that "we are definitely in no rush."[9] But since by 2012 Facebook had more than 500 round lot (over 100 shares) stockholders, Facebook was subject to the SEC disclosure rules starting the next year, 2013. Zuckerberg had little choice as to whether an IPO had to be done at once.
- Facebook filed for an initial public offering on February 1, 2012 by filing their S1 document with the Securities and Exchange Commission(SEC).
- Strong demand, especially from retail investors, suggested Facebook could choose a relatively high offering price.[23] Ultimately underwriters settled on a price of $38 per share, at the top of its target range.[23] This price valued the company at $104 billion, the largest valuation to date for a newly public company.
- On May 16, two days before the IPO, Facebook announced that it would sell 25% more shares than originally planned due to high demand.[25] This meant the stock would debut with 421 million shares.
- At $26.81 per share, which Facebook closed at a week after its IPO, Facebook was valued like "an ultra-growth company," according to Robert Leclerc of the Financial Post. Its PE ratio was 85, despite a decline in both earnings and revenue in the first quarter of 2012.
- Trading was to begin at 11:00am Eastern Time on Friday, May 18, 2012. However, trading was delayed until 11:30am Eastern Time due to technical problems with the NASDAQ exchange.[32][33] Those early jitters would foretell ongoing problems; the first day of trading was marred by numerous technical glitches that prevented orders from going through,[34] or even confused investors as to whether or not their orders were successful.[32]
- Initial trading saw the stock shoot up to as much as $45.[32] Yet the early rally was unsustainable. The stock struggled to stay above the IPO price for most of the day, forcing underwriters to buy back shares to support the

price.[35] Only the aforementioned technical glitches and underwriter support prevented the stock price from falling below the IPO price on the first day of trading.

- At closing bell, shares were valued at $38.23,[37] only $0.23 above the IPO price and down $3.82 from the opening bell value. The opening was widely described by the financial press as a disappointment.
- The IPO also ended up raising $16 billion, making it the third largest in U.S. history (just ahead of AT&T Wireless and behind only General Motors and Visa Inc.).[29][40] The stock price left the company with a higher market capitalization than all but a few U.S. corporations – surpassing heavyweights such as Amazon.com, McDonald's, Disney, and Kraft Foods – and made Zuckerberg's stock worth $19 billion.

Facebook's share value fell during nine of the next thirteen trading days, posting gains during just four.[41] The next day of trading after the IPO (May 21), the stock closed below its offering price, at $34.03.[41] The stock saw another large loss the next day, closing at $31.00.[41] A 'circuit breaker' was used in an attempt to slow down the decline in the stock price.[42] The stock increased modestly in coming days, and Facebook closed its first full week of trading at $31.91.[41] The stock returned to losses for most of its second full week, and had lost over a quarter of its starting value by the end of May. This led the *Wall Street Journal* to call the IPO a "fiasco."[43] The stock closed its second full week of trading on June 1 at $27.72. By June 6 investors had lost $40 billion.[44] Facebook ended its third full week at $27.10, slightly lower than a week previous.[45] The stock stayed below the $38 mark for months and finally bottomed out in September 2012 below $18.[46]

The shares didn't get back to the initial $38 again until August the following year, a full 16 months later

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