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Facebook Common Stock Valuation Jumps 42% to \$9.5 Billion

By Brian Womack

The price of Facebook Inc. stock on exchanges for private companies has jumped as much as 42 percent in the past four months as membership of the site topped 300 million users and the company turned cash flow positive.

Facebook shares are currently selling for about \$21 each at SecondMarket, said Adam Oliveri, managing director at the New York-based company. That's up from \$14.77 in July.

SecondMarket and Santa Monica, California-based SharesPost Inc. are among services that allow current and former Facebook employees to sell shares. Facebook, the most-popular social networking site, may sell stock through an initial public offering in the next 12 to 18 months, said Paul Bard, an analyst at Renaissance Capital LLC, which has specialized in IPO research since 1991.

"The fact that the stock on these private exchanges moved -- I'm sure that has to do with the fact that people think a deal is coming sooner rather than later," said Bard, whose firm is based in Greenwich, Connecticut.

At \$21 each, Facebook's common shares are valued at about \$9.5 billion, Oliveri said. Facebook also has preferred shares, which are typically owned by venture capital investors. When companies have IPOs, preferred stock holders can convert their holdings to common shares, allowing them to sell them on the public market.

Following Google

A Facebook IPO may attract the same level of attention as Google Inc.'s share sale in 2004, Oliveri said. Google sold 19.6 million shares for \$1.67 billion in August 2004, giving the company a market value of \$23 billion. The stock closed at \$576.65 yesterday on the Nasdaq Stock Market.

"The perception is that that the company is going to IPO, and it's going to be the next kind of Google IPO situation where you're going to have massive interest," Oliveri said. "Investors are coming out of the woodwork, trying to figure out a way to get exposure."

Larry Yu, a spokesman for Palo Alto, California-based Facebook, declined to comment. The company said in September that it has more than 300 million users and that it is generating positive cash flow.

In the past 60 days, SecondMarket has handled about a dozen transactions of Facebook shares, with the most recent occurring last week, said Mark Murphy, a SecondMarket spokesman. On SharesPost, buyers have offered \$20 for Facebook shares on the site, up 35 percent from three months ago, the company said. The last transaction was 15,000 shares sold for \$12 each in August, according to SharesPost.

'A Barometer'

Private companies such as Facebook and Twitter Inc. can use these private markets to gauge how much interest there is in their stock, said Scott Sweet, senior managing partner of IPO Boutique, a Web site in Tampa, Florida, that tracks IPOs.

"It's a barometer," Sweet said. "You get virtual channel checks on the appetite on IPOs."

Facebook Chief Executive Officer Mark Zuckerberg, who started the company in 2004 while he was a student at Harvard University, said in May that he expects the company to have an IPO, though he wasn't focused on it.

"It's something we'll do when we're ready for it," Zuckerberg, 25, said on a conference call at the time. "It's something we don't see on the immediate horizon."

Digital Sky

A \$200 million investment in Facebook by Russia's Digital Sky Technologies in May is also boosting expectations for an IPO, Oliveri said. At the time of the investment, Digital Sky said it would offer to purchase at least \$100 million of additional Facebook stock from current and former employees whose shares had vested. In July, Digital Sky offered to pay \$14.77 for each common share of Facebook, giving the company a valuation of \$6.5 billion.

Digital Sky Technologies' \$200 million investment, which consisted of preferred stock, valued Facebook at \$10 billion. In 2007, Microsoft Corp. bought a 1.6 percent stake in Facebook that valued the company at \$15 billion.

After shareholders decide to sell to another party on services such as SecondMarket and SharesPost, the company is alerted and often has the right to buy the shares first. The U.S. Securities and Exchange Commission allows trading in shares of private companies, as long as investors meet certain criteria, such as having an annual income of more than \$200,000 or a minimum net worth of \$1 million, said Tom Kim, a lawyer specializing in executive compensation in Palo Alto, California.

Transaction Volume

Shares of venture-backed private companies are often kept at an outside law firm, and money is held in escrow until the stock has been transferred to the new owner, Oliveri said.

SecondMarket said it has handled about \$75 million of private company share transactions since last year, when it started the service.

Employees of private companies have been able to sell their shares for years, Kim said. There were instances of Google shareholders selling their stock prior to its IPO, he said. Even so, the new exchanges make the process easier.

“People are holding shares in Twitter or in Facebook and they want to unload some of the shares, maybe even 50 percent of what they own,” said Kim, who has helped manage some transfers of Facebook shares. “They don’t need 5 million shares.”

Until July, Facebook’s common shares on SecondMarket had followed the rise and fall of the Nasdaq Stock Market, Oliveri said. While they have gained 42 percent on SecondMarket since July, the Nasdaq Composite Index has climbed 19 percent.

The rising value of Facebook’s shares doesn’t necessarily mean the company is about to go public, said Lise Buyer, founder of Class V Group, an IPO advisory firm in Portola Valley, California.

Offering Liquidity

“The fact that they offered employees liquidity just a few months ago suggests that an IPO is not right around the corner,” said Buyer, who helped run Google’s IPO. “People who are buying it here clearly believe that when there is an IPO, it will be at an even higher valuation than the last round paid. But I don’t think it suggests anything at all about that timing.”

Eighteen U.S. companies had IPOs in September and October, more than at any time in almost two years, according to data compiled by Bloomberg. The IPO market dried up last year, after Lehman Brothers Holdings Inc. filed for bankruptcy and the global economy fell into recession.

“There’s a lot of speculation that the IPO market might recover next year,” SharesPost CEO Greg Brogger said. “It almost certainly will be better than this year because it almost couldn’t be worse.”