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## **Should Facebook Pull the IPO Trigger?**

By Matt Egan

Even though social-networking behemoth Facebook is one of the most obvious candidates to cash in on the recovering capital markets by launching an initial public offering, don't call your broker for allotment just yet.

With more than 400 million users and a chance to bring about \$2 billion in revenue this year, a Facebook IPO would easily be one of the largest deals since the bursting of the tech bubble.

However, Facebook, which was founded in 2004 by 25-year-old Mark Zuckerberg, has put out signals recently it's in no rush to pull the trigger. Instead, the Palo Alto, Calif. company appears intent on a strategy of delayed gratification.

But with capital markets improving and clear demand for a Facebook IPO, is Zuckerberg squandering a great opportunity to make a fortune and cement his company's position at the top?

"It's very clear Zuckerberg is in the driver's seat. He has a lot of years in front of him. There's no doubt he's going to be unbelievably rich. It's just a question of when," said David Hsu, a professor at the Wharton School of Business.

### **What's the Rush?**

While the approach has raised some eyebrows, academics and industry insiders largely praise Facebook for the strategy and say it is a reflection of a trend of IPO-worthy companies avoiding the time-consuming headaches that accompany an offering to instead focus on perfecting their business models.

Jeff Busgang, general partner at Flybridge Capital Partners and author of *Mastering the VC Game*, praised Facebook's approach, saying: "I think it's a brilliant move not to go public now. The later they can wait the better. Once they go public, Mark and Sheryl [Sandberg, Facebook's chief operating officer,] will be spending 20% of their time worrying about Wall Street."

A Facebook spokesman told FOX Business the company "doesn't want to participate in speculation" about an IPO. However, he reiterated the company's mantra: "We currently have no plans to go public."

Last week Zuckerberg told The Wall Street Journal: "We're going to go public eventually, because that's the contract that we have with our investors and our employees." But, he added, "we are definitely in no rush."

There's little reason not to take Zuckerberg at his word. After all, he turned down a \$1 billion buyout offer from Yahoo! (YHOO: 16.39, 0.07, 0.43%) in 2006 and a more recent bid reportedly worth at least \$8 billion from Microsoft (MSFT: 29.16, -0.11, -0.38%).

### **Facebook statistics**

- More than 400 million active users
- More than 35 million users update their status each day
- Average user has 130 friends
- Average user spends more than 55 minutes per day
- More than 5 billion pieces of content (web links, news stories, blog posts, notes, photo albums, etc.) shared each week
- More than 70 translations available on the site
- About 70% of Facebook users are outside the United States

Source: facebook

But by delaying an IPO, Facebook can avoid wooing Wall Street analysts, dealing with the financial media and meeting with shareholders. Zuck, as he's known by employees, can instead "perfect, tinker and experiment with an advertising-driven model," said Hsu.

At the same time, Facebook, which has more than 1,000 employees, appears to have solved the two main problems that typically force companies to go public: a need for financing and a lack of liquidity for shareholders.

Facebook, which doesn't need a great deal of cash to build factories or other physical assets, has a number of apparently patient venture capital investors, including Digital Sky Technology, which injected \$200 million and bought out \$100 million of employees' stock last year in exchange for a 3.5% stake. And a number of private sites, including SharesPost, already offer a stable private market for employees and other shareholders to cash out their stock.

"Facebook is probably one of our most active pages," said Greg Brogger, founder and CEO of SharesPost. Brogger estimates roughly 2,000 visitors a day go to the site's Facebook page and that \$20 million of the company's stock is available to buy or sell any given day.

### **It's Not the 90s Anymore**

The other, less often stated reason to go public is to seize an opportunity for the founders to make a fortune.

"Years ago companies would come public for the payday for everyone up and down the corporation. But things have changed a lot. There's a greater appreciation for the associated costs and risks for coming and being public," said Scott Kessler, an equity analyst at Standard & Poor's.

That greater appreciation underscores the lessons learned since the bursting of the tech bubble, which peaked exactly a decade ago. During the dotcom bubble, scores of companies went public even though they had sketchy business models, no profits and sometimes even a lack of revenue.

David Menlo, president of IPOFinancial.com, said he believes there would be a "feeding frenzy" for a Facebook IPO. "I don't think people are going to care what price it comes at. They will just want to own it. That is reminiscent at what we used to see, especially 10 years ago today," he said.

Facebook isn't alone in its patient approach. Local review site Yelp and Zynga Game Network, the largest provider of social gaming, have recently forgone IPOs by choosing instead to ink significant financing deals. Much like Facebook's deal with Digital Sky, those cash injections accomplished the same goals as an IPO: raising capital for expansion and providing liquidity to investors.

Some tech companies that have gone public of late have run into trouble. For example, OpenTable (OPEN: undefined, undefined, undefined%), a provider of online restaurant reservations that went public in May, traded below its IPO price for much of its first few months before rebounding recently. Shanda Games (GAME: 6.68, -0.06, -0.89%) has suffered an even worse fate, diving 33% this year alone.

### **Will Zuck's Hand Be Forced?**

Proponents of Facebook launching an IPO now highlight the threat of competition and the fact that the capital markets have improved drastically -- the Nasdaq Composite is up almost 90% from its March 2009 low.

"We don't know what will happen next month in the capital markets. It could get very cold. And it could stay cold for a long time," said Hsu, pointing to a six-year stretch in the 1970s where the IPO markets were nearly dead.

While it's true there's no guarantee the markets will stay calm, there doesn't appear to be a threat to Facebook's domination in the near-term. "Obviously, with 400 million users it'll be hard to topple them from the precipice on which they sit," said Menlo. Then again, some said the same thing about social networking site MySpace, which is owned by FOX Business parent News Corp. (NWS: undefined, undefined, undefined%) and has been unseated by Facebook.

Still, some in Silicon Valley have been hoping a Facebook offering would spark a wave of IPO activity. With some private markets reportedly placing a \$14 billion price tag on the company, a Facebook IPO would rank as the second-largest IPO of the last decade, second only to Visa's (V: 92.01, -1.28, -1.37%) \$19.65 billion offering in 2008, according to FactSet Research.

It's possible Zuckerberg's hand could be forced by regulators. Kessler noted that companies with more than \$10 million in total assets and a class of equity securities with 500 or more shareholders must register with the Securities and Exchange Commission.

That doesn't mean Facebook will be mandated to go public. However, it does mean the company will be forced to reveal important financial information that start-ups covet. At that point, it's possible Zuckerberg may give in and decide the time is right to go public after all.

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