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With Friends Like This
By Steven Bertoni

WHAT'S FACEBOOK WORTH?

With Friends Like These

Firms are pooling clients' money to buy privately held Facebook shares—and probably overpaying. By Steven Bertoni

LOOKING TO SNAG SHARES OF FACEBOOK before it goes public? Felix Investments, a New York City investment manager, is giving rich clients a chance to do just that. The firm touts in a letter to potential investors: "Opportunities like this do not come along every day and we have not seen an opportunity like this since Google in 2004!"

Maybe for good reason. Felix is among a handful of firms vying to get an early jump on Facebook's initial public offering (though the company says it has no plans of doing one). These firms have been pooling clients' money to buy blocks of employee-held shares of the social network company before any IPO.

Felix Investments wouldn't comment, but sources say the firm is looking to pay around

\$25 per share of Facebook, which values the company at close to \$11 billion, according to private share marketplace SharesPost. That was also the bid price recently listed on SecondMarket, a New York company that matches buyers and sellers of shares of hot private technology companies like Twitter and LinkedIn. SharesPost displays bids as high as \$31 per share.

That \$25 might be a decent price to tempt a Facebook employee to



mark, and adopted a Google-esque two-tiered stock structure, possibly signaling that a stock issue is imminent. But this news doesn't

sell, but maybe not so good for investors in the buying pools (who also pay a 5% management fee). Only this past July private equity firm Digital Sky Technologies bought a \$100 million chunk of Facebook, paying private holders just \$14.77 per share. That put a \$6.5 billion valuation on the company.

Despite the big run-up in six months, little has changed about the business of Facebook. It has since topped the 350-million-member

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seem to warrant the 70% price surge.

Of course trying to value Facebook is as difficult as hiding from your former high school sweetheart online. The company's revenue is secret—estimates for 2009 range from \$300 million to \$500 million—and there are no big publicly traded social net-

working sites for comparison. But for fun we took the high-end revenue estimate of this "next Google" and multiplied it by the ratio of Google's value at the time of its 2004 public offering to its sales the previous year. That ratio was 15.7. Extrapolated value of Facebook: \$7.9 billion, well below the price

implied by the latest private bids.

This is just a lesson in supply and demand: Few shares are for sale, and everyone wants Facebook bragging rights. At some point investors will think in terms of Facebook's earnings stream, and that just might dampen the excitement. **F**