Facebook Sets Historic IPO

Potential $10 Billion Offering Would Dwarf Google's; Site Has 845 Million Users

By SHAYNDI RAICE

Facebook Inc. filed for an initial public offering Wednesday that could value the social network between $75 billion and $100 billion, putting the company on track for one of the biggest U.S. stock-market debuts of all time.

The company hopes to raise as much as $10 billion when it begins selling shares this spring, said people familiar with the matter. Potential buyers got their first look at its financials Wednesday, which showed the company produced a $1 billion profit last year from $3.71 billion in revenues. The company derives 85% of those revenues from advertising, with the rest from social gaming and other fees.

In just eight years, Facebook has become the world's social bazaar, where friends gossip, play games and swap 250 million photos per day. It has also emerged as a potent political tool, helping to topple regimes across the Middle East last year.

But for all its success, the question remains just how Facebook will manage its growth into a mature, global business, keeping both advertisers and subscribers happy while balancing demands of privacy and profits. The filing left a few clues that Facebook's founder, 27-year-old Mark Zuckerberg, is worried about how wealth and public scrutiny may change the company's culture.

At Facebook's offices, employees went about business as usual Wednesday, said one person, enjoying a lunch of lobster bisque, braised beef, Moroccan couscous and apple, cream and honey galette for dessert, said another. A stack of giveaway posters left in a kitchenette at Facebook headquarters read "Stay Focused & Keep Shipping," according to a photo shared by Facebook employees. Mr. Zuckerberg shared a photo on Facebook of the flyer on his desk.

Looming a few months away is Facebook's giant offering, which would top rival Google Inc.'s 2004 IPO. It holds the record for the largest U.S. Internet IPO by raising $1.9 billion at a valuation of $23 billion. Among U.S. companies, only Visa Inc., General Motors Co. and AT&T Wireless have held larger
offerings than $10 billion. In the filing with the Securities and Exchange Commission, Facebook said it is seeking to raise $5 billion, but that figure is a placeholder and will likely grow.

While Facebook is growing fast—revenue grew 88% from a year earlier—the sales figures it released were lighter than some had expected. One widely cited outside estimate from research firm eMarketer pegged Facebook’s revenue for 2011 at $4.27 billion.

Still, Facebook’s membership growth has been staggering. The company said in its filing that it has 845 million users globally, up 39% from a year earlier.

The IPO is set to unleash a wave of wealth across Silicon Valley and yield potentially $100 million or more in fees for Wall Street banks managing the
IPO: Go, No-Go?
Track the performance of some notable initial public offerings—the highfliers and flame-outs—of past and present.

The company chose "FB" as its ticker symbol but hasn't decided whether it will trade on the New York Stock Exchange or Nasdaq Stock Market.

Mr. Zuckerberg had been famously reluctant to push forward with an IPO. In early 2010, he told The Wall Street Journal that he was in "no rush" for Facebook to go public.

The CEO owns around 28% of the company and holds 57% of its voting share power, according to the filing. Mr. Zuckerberg will sell shares in the IPO and will use the proceeds to pay taxes, it said. The filing doesn't say how many shares the CEO intends to sell.

People familiar with Mr. Zuckerberg's thinking said he has long been fearful of the damage an IPO could do to the company's culture. He wants employees focused on making great products, not the stock price, they said.

Mr. Zuckerberg's thinking began changing when Facebook realized in 2010 that it would have more than 500 shareholders by the end of 2011, which would trigger a regulatory requirement that the company start publicly reporting financials. Mr. Zuckerberg decided it made more sense for Facebook to go public and reap some financial benefit from an IPO.

Facebook also still faces questions about its commitment to its users' privacy, an issue that had dogged it since its earliest days. Despite a settlement last year with the Federal Trade Commission in which the company agreed to independent privacy audits for 20 years, privacy advocates worry about the vast trove of user data it owns. Mr. Zuckerberg has promised users he is committed to protecting their privacy.

Facebook takes pains to mention the importance of privacy, mentioning the word 35 times in the filing, and even listing its "privacy and sharing settings" as one of the ways the company creates value.

In a letter to potential shareholders, Mr. Zuckerberg—who has long eschewed the business side of Facebook—said he plans to continue focusing on building products, rather than sales growth. "We don't build services to make money; we make money to build better services," Mr. Zuckerberg wrote. "These days I think more and more people want to use services from companies that believe in something beyond simply maximizing profits."
Overall, Facebook's annual revenue growth is slower than other tech companies who have staged IPOs recently. Groupon's revenue grew 695% for the nine months ended September 2011 from a year earlier. Zynga's revenue more than doubled for that same time period.

Unlike some other newly public Web companies, Facebook is profitable, with 2011 profit up 65% from the year earlier period. But growth has its costs. The company's research and development expenses ballooned last year to $114 million in 2011 from $9 million in 2010, primarily due to growth in employee head count and equity compensation. Facebook's costs and expenses are going up faster than revenue. It employs 3,200 as of December, up from 2,172 a year earlier.

Debra Williamson, an eMarketer analyst who had estimated Facebook's 2011 revenue at $4.27 billion, called the company's revenue "disappointing."

But Kevin Landis, portfolio manager of Firsthand Technology Value Fund, Inc., which has bought Facebook shares in the secondary market, said he wasn't disappointed and hopes to buy more stock when Facebook goes public. "This is a company that has only just begun to scratch the surface of making money off those hundreds of millions of people getting on Facebook every day," he said.

Social gaming has become an increasingly important part of Facebook's business. The company generated $557 million in revenue from partners such as Zynga who sell virtual goods last year.

Facebook's revenue is still driven by online ads. The number of ads delivered on the site grew 42% and the average price per ad grew 18% over 2011 from 2010, according to the filing.

The company attributed the improvement to a vast trove of information that allows marketers to "show their ads to a subset of our users based on demographic factors such as age, location, gender, education, work history, and specific interests that they have chosen to share with us on Facebook or by using the Like button around the web or on mobile devices."

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