Facebook Targets $96 Billion Value

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Facebook Inc. pulled back the curtain on how much it thinks it is worth, targeting a valuation as rich as $96 billion in what would be a record debut for an American company.

The filing starts the clock for Facebook's executives to persuade investors ahead of a scheduled May 18 initial public offering that the social network deserves such a lofty price. Eight-year-old Facebook would become the most valuable U.S. technology company at the time of an IPO, exceeding Google Inc.'s $23 billion valuation in 2004.

At nearly $100 billion, it would also rival the current market values of more established companies including Amazon.com Inc. and McDonald's Corp., and longtime tech giants like Hewlett-Packard Co., despite having a fraction of the revenue—or profit.

Currently, the largest valuation for a U.S. company at the time of an IPO was United Parcel Service, in 1999, at $60.2 billion, according to Dealogic.

Facebook's IPO will be a watershed moment for Silicon Valley, spawning a new generation of millionaires, and a handful of billionaires, including founder and Chief Executive Mark Zuckerberg, whose stake is worth as much as $18.7 billion. It will also stand out even among the wave of high-profile Internet IPOs in the past year from companies such as LinkedIn Corp. and Zynga Inc.
But while the social network is growing rapidly—more than 900 million people now use the site—there are questions whether its trajectory is slowing. Its revenue in the latest quarter rose 45% from a year ago, but fell 6% from the previous three months.

Among Facebook’s challenges will be convincing skeptical marketers that ads on its site lead to people buying products. In addition, Facebook lags in the fast-growing mobile market, where Google has gained significant influence with its Android software. And Facebook has little presence in China, home to the world’s largest population of Internet users.

Company stock exchanges like SharesPost, where the social network’s shares last cleared at more than $44.

If Facebook ends up going public at the lower end of its price range—suggesting a valuation of $77 billion—that would mean an immediate loss for investors like Kevin Landis of San Jose, Calif., tech investment fund Firsthand Capital. Mr. Landis bought shares of Facebook on the secondary market for $31 to $32 a share over the past year and agreed not to sell the shares for six months after the IPO.

"I've been surprised before, but I'll be surprised again if it ends up pricing at that low end of that range," said Mr. Landis. He adds he isn't worried yet, partly because the low range may be a tactic to build excitement for the IPO.
Facebook will narrow down a specific price before its first day of trading on May 18, by which time investor interest could cause bankers to raise the price even higher.

With the pricing, Facebook is anticipated to raise as much as $13.6 billion, above earlier expectations of $10 billion. In a regulatory filing, Facebook said the company would seek to sell 337.4 million shares, with about half of those being sold by founders, employees and investors.

The only U.S. issuers that have raised more money in an IPO were Visa Inc. at $19.7 billion in 2008 and General Motors Co. at $18.1 billion in 2010.

Mr. Zuckerberg, who founded Facebook in his Harvard University dorm room in 2004, is selling 30.2 million shares in the offering that could pocket him over $1 billion. Facebook says he is selling to pay taxes on his stake in the company. He would be left with as much as $17.6 billion worth of shares. Mr. Zuckerberg will also control approximately 57.3% of the voting power of Facebook’s outstanding stock following the offering.

Chris Baggini, a fund manager for the Berwyn, Penn.-based Turner Investment Partners, said he plans to buy stock in the Facebook IPO and thinks even if the company prices on the high end of its range, it would be a discount. He anticipates Facebook will be worth $200 billion within four years.

"We already have a business model out there that’s similar to what their business model is going to look like and that’s Google," said Mr. Baggini, who calls Facebook's business "incredible."

Others were more cautious. To sustain Facebook's valuation, Jed Williams, an analyst with BIA Kelsey, said the company would need to grow revenue at 41% each year in the next five years.

Morningstar’s Mr. Summer said the only way to justify even the low end of Facebook’s valuation would require the company to make $40 billion in revenue within the next six to seven years, while maintaining the same profit margins. Facebook’s revenue in 2011 was $3.7 billion and profit margin was 27%.

The company will also need to expand into other areas like e-commerce or payments in order to support its valuation, analysts said. Right now, Facebook’s payments business is limited to social game companies, with Zynga making the bulk of those payments.

Facebook’s ad business, which accounted for 85% of the company’s total revenue last year, has been tricky as the social network has struggled to balance the needs of advertisers, who want more room for display ads on the site, while trying to maintain the quality of the experience for users, who dislike ads.

Facebook is also trying to find new ways for advertisers to cough up big bucks, since much of the advertising on the site can be done free through brand pages that accumulate fans. In March, Facebook made its biggest push to get advertisers to pay through a product called "Reach Generator," which helps advertisers reach 75% of their fans on the site.

Facebook also has limited ways to make money off its mobile app, despite more than half of its 900 million users accessing the site through the app. Facebook also has limited mobile advertising. Last month, however, the social network agreed to pay $1 billion to acquire mobile photo-sharing app Instagram.

Hussein Fazal, CEO of Facebook ad company Adparlor Inc., said the amount advertisers pay for every 1,000 people who view an ad is relatively low on Facebook, at 25 cents to 30 cents. Mr. Fazal said it will be a challenge for Facebook to increase those rates, but they could increase the volume of ads if the company expands its ads into areas like mobile, he said.

Meanwhile, Facebook has said international markets are essential sources for significant growth. But the social network is mostly blocked in China, leaving hundreds of millions of Internet users out of reach.
Facebook is likely about two weeks away from a final pricing and the first trading of its shares on the Nasdaq Stock Market, under the symbol FB. The "roadshow," where the company pitches its shares to investors, is expected to begin Monday with group lunch meetings for investors planned in New York, Boston and Palo Alto, Calif., hotels.

Facebook Chief Operating Officer Sheryl Sandberg and Chief Financial Officer David Ebersman will handle most of the investor meetings on the roadshow, said people familiar with the matter. Mr. Zuckerberg will make just a few appearances, they said.

On Thursday, however, Mr. Zuckerberg appeared in a video for investors. Wearing jeans and a T-shirt, the 27-year-old discussed why he decided to start the social network.

"I grew up with the Internet, when I was in middle school I was using search engines like Google and Yahoo," he said. "I thought it was the most amazing thing. Now you have access to all this information. The thing that was missing was just people."

Morgan Stanley, J.P. Morgan Chase & Co. and Goldman Sachs Group Inc. are the lead underwriters. Bank of America Merrill Lynch, Barclays PLC, Allen & Co., Citigroup Inc., Credit Suisse Group AG and Deutsche Bank Securities are the other bookrunners on the IPO, in addition to which 24 firms are co-managers.

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