

South Florida
BUSINESS
JOURNAL
MAY 11-17, 2012

Facebook IPO price relies on its user numbers and management

BY PAUL BRINKMANN

Facebook's impending IPO is one of the biggest business stories of the year, and South Florida professionals are closely watching its developments.

The company plans to go public May 17 at a share price between \$28 and \$35, which would

mean the company's value would be about \$10 billion.

"It's clear that Facebook's value is tied to the fact that they have 900 million users," said corporate attorney Bradley Houser, a shareholder with Akerman Senterfitt in Miami. "But the

SEE **FACEBOOK** | 28

FACEBOOK: Still expected to be controlled by Zuckerberg, experts say

THE DETAILS

Facebook's major owners

- **Founder Mark Zuckerberg:** 28 percent
- **Accel:** 11.4 percent
- **Co-founder Dustin Moskovitz:** 7.6 percent
- **DST:** 5.4 percent
- **Peter Thiel:** 2.5 percent

Facebook statement on 'controlled company' status

"We have elected to take advantage of the 'controlled company' exemption to the corporate governance rules for publicly-listed companies. Because we qualify as a 'controlled company' under the corporate governance rules for publicly listed companies, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors has determined not to have an independent nominating function and has chosen to have the full board of directors be directly responsible for nominating members of our board, and in the future we could elect not to have a majority of our board of directors be independent or not to have a compensation committee. Our status as a controlled company could cause our Class A common stock to look less attractive to certain investors or otherwise harm our trading price."

Source: Facebook S-1 prospectus

FROM PAGE 1

\$64,000 question is whether Facebook can continue monetizing that."



Houser

Houser represented FriendFinder Networks (NasdaqGM: FFN), a group of online dating and social networking websites, in its IPO more than a year ago.

Houser has helped other companies go public. He said a cultural change is generally necessary, although that priority may be muted at Facebook because of founder Mark Zuckerberg's overwhelming influence.

"Facebook will be controlled by Zuckerberg, and it has already filed as what they call a 'controlled company,'" Houser said. "Facebook has made it clear that a majority of its board will be independent from its officers, but it doesn't have to be."

A COMPLETELY DIFFERENT BUSINESS

Leading up to an IPO, Houser has helped companies reorganize.

"If it's a partnership, it has to be converted into a C corporation. You revise the bylaws, educate the management team and the founders about the requirements," he said. "Being public is a completely different game. It means more scrutiny. You have quarterly announcements where analysts are asking

detailed questions."

Houser said a comparison of Zuckerberg's role at Facebook might be made to H. Wayne Huizenga's original founding role at Waste Management (NYSE: WM) and other companies. Many observers may have believed that Waste Management needed Huizenga to survive, but the company continued even after Huizenga moved on.

"At the end of the day, Zuckerberg's role is fully disclosed, and anyone who becomes a stockholder of Facebook will be on notice that those are the rules of the game," Houser said.



Schubauer

Attorney David Schubauer, a partner with Bilzin Sumberg Baena Price & Axelrod in Miami, started his career in New York focused on public offerings and ongoing SEC compliance.

Schubauer said Facebook will have to disclose more information.

"Their disclosure of stockholders had been a little vague," he said. "They disclosed it, but not in terms of 'record holders,' which is the way the SEC requires it."

He noted that Facebook triggered a requirement to go public when it passed 500 stockholders, but that requirement was since raised to 2,000 stockholders as part of the federal Jumpstart Our Business Startups (JOBS) Act.

"There's clear disclosure in Facebook's prospectus that they've been growing at an astronomical rate, and they do not expect to be growing at that same rate," Schubauer said.

HOW MUCH FUTURE GROWTH?

Robert White, an equity shareholder with Gunster in West Palm Beach, specializes in technology law and entrepreneurial companies. He said he is also skeptical of Facebook's growth rate in the future. He noted that Facebook's recent purchase of mobile photo-sharing platform Instagram was held out as a sign of new opportunity for revenue.

"I don't want to question Mark Zuckerberg, but the share price will demand growth, and the question is: Can they manage this growth? One criticism of Zuckerberg is he engineered this Instagram purchase himself, bringing the board in at the last moment," White said.

White said business-networking site LinkedIn (NASDAQ: LNKD) is an example of a successful IPO, while Groupon (NASDAQ: GRPN) was not as successful.

South Florida individuals would normally have to wait at least a few hours to buy stock through an IPO. But Zuckerberg made sure that some shares would be immediately available for those who have accounts with online stock purchasing portal E-Trade.

pbrinkmann@bizjournals.com | (954) 949-7562