

# Facebook IPO falls flat

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Facebook, the social networking platform, made its initial public offering on Friday in the largest technology IPO in US history. The deal was largely seen as unsuccessful, as high sell volume after the opening prompted the offering's underwriters to buy up stocks to shore up the price.

The much-hyped event exemplified the parasitic and speculative character of American capitalism, as Wall Street insiders and large financial firms ploughed billions into a bid to inflate the stock price of the Internet company, hoping to make a quick killing.

Facebook's lackluster performance capped the US stock market's worst week in six months. The Dow Jones Industrial Average lost 73 points (-0.59 percent), and the NASDAQ, which had outbid the New York Stock exchange to become the home of Facebook shares, fared even worse, losing 35 points (-1.24 percent). The day proved something of a disaster for the technology-heavy exchange, which was overwhelmed by the unprecedented volume of trading in Facebook and failed to properly process many orders.

Facebook stock ended the day at \$38.23, a mere 0.61 percent higher than the initial offering price of \$38. The "pop" of 5 percent or more anticipated by speculators did not materialize.

Nevertheless, the IPO pushed up the market capitalization of the company to the staggering figure of \$104.8 billion. At that valuation, the eight-year-old company is the 23rd largest US firm by market capitalization, ahead of Amazon, Cisco Systems and McDonalds, and more than three times higher than that of General Motors. The grossly distorted valuation is indicated by the fact that Facebook, in terms of revenue, ranks 909th.

The amount raised in the IPO totaled \$16 billion, the third-largest in US history, trailing only Visa's 2009 offering and the share offering by General Motors in 2010. Facebook stock set a new record for single-day

trading volume, with 82 million shares sold in the first 30 seconds and 573.6 million shares traded throughout the day.

After initially opening at \$42.05, the stock rose briefly before plunging back toward \$38. This prompted the deal's underwriters, led by Morgan Stanley and JPMorgan Chase, to buy shares at a rapid clip to keep the price from falling further.

At the stock's initial offering price of \$38, Facebook's price-to-earnings ratio was an astronomical 68. This compares to 14 for Google, 11 for Apple and 10 for Microsoft.

Early in the day, the stock received a sell rating from Pivotal Research Group, which estimated the stock's long-term value to be closer to \$30. "We are wary of the disconnect between revenue growth and operating/capital expense growth expectations," analyst Brian Wieser wrote in a research note. "The market is pricing Facebook as a less risky asset than Google, which we believe is simply not the case."

Speaking on Bloomberg News, Wieser explained that his assessment did not stem from doubts about Facebook's growth prospects, but from the conclusion that markets were dramatically undervaluing risks to the company's future earnings.

In the final hour of trading the share price was threatening to fall below \$38. It apparently took a massive intervention by the underwriters in the final minutes to nudge the closing price safely above the offering value, averting what would have been deemed a disaster. The result, however, is that JPMorgan, Morgan Stanley and the 31 other firms underwriting the IPO have pumped billions of dollars into a stock that looks likely to sink in the coming days and weeks, as more shares are placed on the market.

Facebook raised its IPO price from \$35 to \$38 on Monday, increasing its valuation from \$96 billion to \$104 billion. This was despite the fact that Facebook's

profits were down by one third last quarter from a year ago.

The company, which has only 3,500 employees, presides over the largest social network platform in the world. Starting off as a dorm-room hobby by its founders, Facebook has become an integral part of Internet communications and is even starting to displace earlier technologies like SMS and email.

Facebook's main attraction to investors is its extraordinary database covering its nearly 1 billion users, which includes their tastes, personal histories and messages. Advertisers are salivating over ways to mine this data to target advertising and shape consumers' purchasing decisions.

But as of yet, Facebook has not found a consistent way to translate its user base into a constantly-growing stream of revenue in the way that its rival, Google, has been able to do.

The poor performance of the IPO is bound up with the context of a sharply accelerating economic crisis in the US and internationally. The prospect of a Greek default and unraveling of the euro, growing signs of slump, and multiple bank downgrades all weighed on the market. But the failure also reflects the contradiction between the intrinsic productive value of the firm and its market capitalization.

Nevertheless, the IPO of Facebook succeeded in making millionaires out of nearly 1,000 people and billionaires out of a smaller group. Seven people collectively owned \$25 billion of the company's stock at the time of the IPO, according to *Forbes*, a figure amounting to 13 percent of the gross domestic product of California.

Mark Zuckerberg, the company's CEO, sold \$1.5 billion in stock in the IPO and is holding another \$16.9 billion. Dustin Moskovitz, a company co-founder, had a stake worth \$4.8 billion at the time of the IPO. Sean Parker, an early president of the company, is now worth \$2.1 billion. Wall Street Firms, including Goldman Sachs and several hedge funds, stand to take in billions apiece.

Real estate agents, wedding planners and luxury car salesmen in the San Francisco Bay area have been preparing for the IPO for months. Speculators have been buying up property in the Pal Alto area to flip to the new Facebook millionaires, driving real estate prices up 31 percent in the last year.

While 12 million people are officially unemployed in the United States, and millions more have given up looking for work, the banks and corporations, which are sitting on a cash hoard of almost \$2 trillion, refuse to invest in productive activity. Rather, they are using this money for speculation and other socially destructive activities.

The speculation surrounding the IPO does not negate the impact of Facebook and other social networking technologies in revolutionizing communications in ways that are only beginning to be understood. It does, however, starkly raise the necessity of taking such social resources out of the hands of financial parasites and placing them under public ownership and democratic control so they can be used to address human needs.



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