

BEN 17: Facebook IPO – The Aftermath

Discussion Questions

1. At what price would you consider buying Facebook shares? Explain.
2. One of Facebook's difficulties is the way they generate revenue through advertising. Do you often click on the advertisements on Facebook? Why or why not?
3. What do you think will be the future of Facebook and other similar social networking sites? Explain
4. Facebook recently bought the photo service Instagram for \$1B; do you think they will buy any other companies? Explain.

Transcript

After a long wait, and even more **hype**, Facebook joined NASDAQ on May 18th; although it wasn't all **smooth sailing** for Zuckerberg and friends. After opening 30 minutes late, and climbing briefly from the opening price of \$38 a share; reality **set in**. The Chicago Tribune had this to say:

Facebook's IPO **fizzled** as the shares fell below the offering price, hit by **technical glitches** that **disrupted** first-day trading and **drawing lawsuits** targeting **underwriters** for **selectively** sharing changes made to **analyst forecasts**.

Since the problems of the first day, things haven't improved, with billions of dollars being **wiped off of** its **market value**. As McLean's Magazine explains:

Since its **market debut** Facebook has **shed** approximately \$25 billion in value - **roughly equivalent** to the **market capitalization** of Morgan Stanley, the lead underwriter of Facebook's IPO.

This **rocky start brought back memories of** the mid-90s, when companies with only a **dot-com suffix** and a strong **sales pitch** were able to **lure** investors **en masse**. From The Republic:

Facebook's IPO, like Netscape's in 1995 and Google's in 2004, was supposed to be a **shining monument** to Silicon Valley **ingenuity**. Instead it has **dredged up** unpleasant memories of the dot-com **bust**. And it has **magnified** doubts about Facebook's business prospects and the experience and **judgment** of its management team.

The **dramatic** price drop and **controversy** surrounding Facebook's stock price has many wondering how its shares could have been valued so high **in the first place**. PC-World revealed:

The underwriters - at the **last minute** - increased the size of the offering and **jacked up** the offer price to an **astronomical** value, compared to what the company actually earns.

What's more, with the **SEC** and other **federal bodies** beginning **to dig around**, Facebook is likely **to have its hands full** for the **foreseeable future**. From PC-Advisor:

A Morgan Stanley analyst had **cut** its **revenue forecast** for Facebook in the days before the offering, and may have only told top clients **verbally**, rather than **spreading the word** publicly. If true, this action could be **interpreted** as an **infraction** of financial laws, and now spokesmen from U.S. House and Senate committees are **looking into** the matter.

Zuckerberg is at risk of losing even more friends as each day seems **to bring about** yet another **insider trading** accusation, or lawsuit. The New York Post commented:

Another group of **disgruntled** Facebook investors has reportedly **sued** the social media **guru**, saying he **made out like a bandit** over the site's **botched** IPO. This latest **class-action lawsuit** claims Zuckerberg knew Facebook was horribly overpriced at \$38 per share when trading began last month.

However, all of the **finger-pointing** has led some analysts to wonder when the **blame game** is going to end. Value Walk suggests:

Even though Zuckerberg did sell a large number of shares on the **open**, he has most of his wealth **tied up** in the stock. Why would he want the price **to tank**? He does not want to lose money. Clearly, this was not some intentional plan **to scam** investors.

While much of the media attention has been on the **scandal** surrounding share prices, some think that too much of a **big deal is being made of** the negative start and that in many ways it was all to be expected. The Huffington Post points out:

The **debacle** was not the IPO but all the **whining** by **speculators** who didn't make money," says Lise Buyer, who helps companies plan initial offerings.

To date, Facebook's stock has **plummeted** about 38%, giving it a value of just over \$50 billion. But, in the months ahead, if prices improve, a lot of fresh millionaires will be able **to cash out**. As CNET concludes:

Some will **bolt** to do their own **startups**. But some will take another popular **career path** for the young and rich: They'll become full-time **angel investors**, **pouring** more money **into** companies trying to become the next Facebook.

Vocabulary

Hype: Promotion, Excitement, or publicity; "The release of the new Samsung Galaxy S has created a lot of hype for the smartphone industry."

Smooth sailing: Able to progress or move forward with little problem or difficulty; "We had some trouble setting up the new IT system, but now that it's ready, everything will be smooth sailing."

To set in: To begin to happen or to become apparent; "If that cut isn't treated soon, infection may set in."

To Fizzle: To fail or end weakly, especially after a hopeful beginning; "The number of new Facebook users is starting to fizzle in recent months."

Technical glitch: Technical problem.

To disrupt: Interrupt, interfere, or disturb; "Please turn off your mobile phones so as not to disrupt the meeting."

To draw: To cause to happen or occur; "The noise from the party drew complaints from the neighbors."

Lawsuit: A proceeding in a court of law brought by one party against another.

Underwriter: A firm, usually an investment bank, which buys an issue of securities from a company and resells it to investors.

Selectively: By selection or in a selective manner; "Our employees are chosen selectively; not everyone is suited to working with us."

Analyst forecast: Prediction or projection of a trend or activity by an expert in a certain field.

To wipe off: To remove or erase; "Before selling my iPad, I wiped off all of my personal information."

Market value: The price at which an asset would trade in a competitive auction setting.

Market debut: First appearance on the stock market.

To shed: To lose or decrease; "Jules shed almost 15kg with his new liquid-only diet and exercise plan."

Roughly equivalent: Approximately or nearly equal to in value or effect; "The sugar in a 32oz cup of soda is roughly equivalent to 6 chocolate bars."

Market cap (capitalization): the value of an individual share multiplied by the number of outstanding shares.

Rocky start: A difficult or uneven start; "Although Judi's presentation had a rocky start, she was still able to make the sale!"

To bring back memories of: To remind of; "The music of Oasis brings back memories of senior school."

Dot-com suffix: The ending of any website name with ".com".

Sales pitch: A presentation designed to introduce a product or service in order to convince people to buy it; "Don's sales pitch to Jaguar was unique, persuasive, and most importantly, successful!"

To lure: To attract, tempt, or entice; "Megan couldn't be lured to the competitors by the money; she wanted a position that would help her career."

En masse: As a (large) group.

Shining monument: An excellent or great example.

Ingenuity: Creativity, imagination, or originality.

Bust: Period of economic difficulty during the boom-bust cycle; "After several boom and bust cycles, home prices have increased by nearly 200% since 50 years ago."

To dredge up: To mention something unpleasant from the past.

To Magnify: To emphasize or make larger/more important; "Spain's banking problems last week magnified the Euro crisis; they must find a solution soon!"

Judgment: The ability to understand a situation and make a good decision; "The company showed poor judgment by not accepting the consultant's advice."

Dramatic: Sudden and significant; "The Canadian government reported they will need a dramatic increase of workers by 2020."

Controversy: A dispute or disagreement that is usually public; "Changes to Italy's labor laws have created a lot of controversy between unions and employers."

In the first place: From the start or beginning.

Last minute: The last possible time or moment before an event; "If it wasn't for the last minute, nothing would get done."

To jack up: A sudden increase in price or amount; "Protests in Montreal started when the provincial government wanted to jack up tuition prices by nearly \$2000 over 5 years."

Astronomical: Extremely large or significant; "The lawyers were charging an astronomical fee for their services."

SEC – Securities and Exchange Commission

Federal body: A group or agency operated and managed by the federal government.

To dig around: To try very hard to find out information about someone, especially when they do not want you to; "Potential employers have started to dig around on Facebook and Google to find any information they can about new employees."

To have one's hands full: To be busy or totally occupied with someone or something; "I have my hands full with my three jobs and two young children."

Foreseeable future: The amount of time from a certain moment in which one can predict a certain outcome or result; "They plan on living in France for the foreseeable future; they love the life there."

To cut: To decrease or reduce; "In difficult economic times, it's important for all companies to cut costs in whatever way possible."

Revenue forecast: Projection or prediction of a company's income.

Verbally: In a spoken manner; "We verbally agreed that my project would be continued for another year, but we haven't signed the official contract yet."

To spread the word: To inform other people of certain news or information; "All employees were asked not to spread the word about Jerome's promotion until he was able to tell him first."

To interpret: To understand an action or situation in a particular way; "From what I could interpret from our meeting, they're plan is to invest another two million dollars in the company."

Infraction: A violation or infringement of a law, agreement, or set of rules; "The man was given a traffic infraction for driver over the posted speed limit."

To look into: To investigate, examine, or inspect; "Before I could make a decision, I needed to look into the situation a little deeper and examine the risks."

To bring about: To cause to happen; "Many have asked if increased austerity has brought about a worse economic situation in Europe."

Insider trading: The trading of a corporation's stock or other securities (e.g. bonds or stock options) by individuals with potential access to non-public information.

Disgruntled: Unhappy, dissatisfied, or resentful.

To sue: To take or begin legal actions against a person or corporation; "Tobacco companies are being sued by customers who got cancer from smoking."

Guru: Expert, specialist, or wise person.

To make out like a bandit: To be extremely successful, or to take significant advantage of others usually by cheating them.

To botch: To make a mistake; "The Miami Heat botched their final chance to win Game 4 against the Boston Celtics"

Class-action lawsuit: A lawsuit that allows a large number of people with a common interest in a matter to sue or be sued as a group.

Finger-pointing: To accuse another of wrongdoing.

Blame game: See "finger-pointing"

Open: The start of trading on a securities exchange which signals the start of an official day.

To be tied up: To be kept busy, occupied, or engaged; "To be kept busy, occupied, or engaged; "I'm sorry, the CEO is tied up at the moment, can I take a message?"

To tank: To suddenly decrease, decline, or fail; "The DAX tanked after leaders failed to agree to a long-term plan out of the crisis."

To scam: To cheat, trick, or deceive; "The car salesman scammed the customer by charging him nearly 50% more than the value of the vehicle."

Scandal: An action or event regarded as morally or legally wrong and causing general public outrage; "Last year's phone hacking scandal in the UK has led to several resignations from 'News of the World' executives."

To make a big deal out of something: To become excited or upset about something that is not so important or significant; "My husband always makes such a big deal out of the fact that I ask him to help me clean the house."

Debacle: A sudden and significant failure, a fiasco; "The debacle started when all of the company's computers got the same virus."

Whining: Complaining, often in a weak way; "Their whining is simply because we wouldn't buy them a new video game."

Speculator: A person who trades derivatives, commodities, bonds, equities or currencies with a higher-than-average risk in return for a higher-than-average profit potential.

To plummet: To fall or decrease suddenly and significantly.

To crater: To fall or decrease suddenly and significantly.

To cash out: To convert non-cash assets into cash; "After winning the poker game, Roger decided to cash out and go home."

To bolt: To leave or run away suddenly; "In order to avoid the crowds of people, we bolted for the exits after the concert finished."

Startups: A business or activity that has recently started.

Career path: Flexible line of progression through which an employee moves during their employment with an organization; "She needs to decide if moving abroad is the best decision for her career path."

Angel investors: An investor who provides financial backing for small startups or entrepreneurs.

To pour into: To supply in large amount or quantity; "We've poured thousands of dollars into our children's university education, and now the twins are nearly finished high school!"

Review Quiz

1. Which of the following is NOT a synonym of "decrease"
 - a. Plummet
 - b. Tank
 - c. Crater
 - d. Draw

2. "The percentage of an industry or market's total sales that is earned by a particular company" is the:
 - a. Market value
 - b. Market cap
 - c. Market share
 - d. Market debut

3. "After my cat Dexter climbed in the tree, we _____ him down with some food."
 - a. Botched
 - b. Lured
 - c. Sued
 - d. Shed

4. The dramatic turn of events was _____ motion after half of the top executives were fired.
 - a. Set in
 - b. Hit by
 - c. Brought about
 - d. Dug around

5. This whole _____ could have been avoided if she hadn't _____ out of missing the train.
 - a. Debacle/made a big deal
 - b. Infraction/had her hands full
 - c. Hype/made out like a bandit
 - d. Guru/spread the word

6. Which of the following verbs is used with "sales pitch"?
 - a. Do
 - b. Make
 - c. Give
 - d. All of the above

7. I lent him the money even though it goes against my better _____.
- a. Controversy
 - b. Selectively
 - c. Judgment
 - d. Lawsuit
8. "Sorry we couldn't stay longer, but we really have to _____"
- a. Magnify
 - b. Interpret
 - c. Unload
 - d. Bolt
9. "I heard that there are a lot of those telephone-marketing _____ happening these days. People need to be very careful!"
- a. Glitches
 - b. Scams
 - c. Whiners
 - d. Disruptions
10. Because the tourism industry has started to _____, hotels haven't _____ prices to the _____ summer rates like they usually do.
- a. Tied up/cashed out/disgruntled
 - b. Expected/botched/equivalent
 - c. Fizzle/jacked up/astronomical
 - d. Wipe off/poured into/rocky