Facebook ready for a public splash

February 2, 2012 | by Michael Farrell

The massive social network Facebook, founded eight years ago in a Harvard dorm, filed papers yesterday for a stock offering expected to raise at least $5 billion in the biggest Wall Street debut for a tech company since Google.

The filing is the first public record of Facebook's financial performance, revealing that the company made more than $1 billion in profits on revenues of $3.7 billion last year.

Many local money managers stand to see big gains.

When Google Inc. went public in 2004, it raised $1.9 billion and soon became one of the most dominant forces on the Web. If Facebook's offering is as successful as many expect, it could value the company as high as $100 billion, cementing its place among the largest corporations in the world and redefining the social media sector for investors.

Thanks to Facebook, "social media is a permanent part of the Internet," said Andrew McAfee, a researcher at MIT's Center for Digital Business. "It should put to rest any notion that this phenomenon of using digital tools to connect with others is a fad."

Facebook, which plans to trade under the symbol FB, reported that it has 845 million active monthly users and has seen a 65 percent jump in net income from 2010 and nearly four times its earnings in 2009. A date for the offering, which some reports say could raise as much as $10 billion, has not yet been set.

The filing also revealed that chief executive Mark Zuckerberg, 27, who dropped out of Harvard University after cofounding Facebook, owns 28.4 percent of the company's shares, a stake that will be worth $28 billion if Facebook becomes a $100 billion company.

Zuckerberg, known for his casual attire and modest lifestyle among Silicon Valley's wealthy technology set, received nearly $1.5 million in compensation in 2011, including a salary of $483,333 and a bonus of $220,500. He was also paid $783,529 in other compensation last year, mostly for personal use of aircraft chartered by the company.
He asked Facebook's board to lower his base pay to $1 in 2013, according to yesterday's filing.

The company makes money by selling ads that appear on its pages, which have become a magnet for advertisers looking to reach Facebook users. It handles more than one-third of all online display advertising that appears on the Web. But some investors question whether Facebook can continue to increase its revenues.

"As a business, it's still trying to prove its value," said Nate Elliott, an analyst at Forrester Research in Cambridge.

Some investors are calling on Facebook to make better use of its vast storehouse of data about users, from where they go on the Web to what their preferences are in music, movies, and even politics. To grow, Elliott said, the company must unlock that information so marketers can use it to more precisely target their ads to the right users.

"Facebook needs to make advertising on Facebook work better," he said.

The company has made adjustments over the past year to give easier access to users whose personal preferences make them desirable to advertisers. But the use of such personal data is a minefield for Facebook, as both consumers and regulators have reacted negatively to changes in Facebook's policies regarding user privacy.

The company will have to strike a careful balance between user privacy and the use of personal information to place advertising, according to MIT's McAfee. "If they violate the trust that they have with 800 million people around the world, they could get into real trouble," he said.

In fact, Facebook, which has a mission "to make the world more open and connected," has already run into trouble with regulators. Last year, it settled with the Federal Trade Commission over complaints about policy changes that altered the way user information was being shared, agreeing to, among other things, improve its notification process when it changes user privacy practices.

Another challenge for Facebook: tough competition from the likes of Google, Microsoft, Twitter, and from fast-growing social media sites in overseas markets like Renren, which is based in China. Facebook, already available in 70 different languages, said it is looking at expansion opportunities, including into China.

"If they are going to get user growth, it's going to come from emerging and growing markets," said Elliott.
Facebook is also at the heart of an Internet ecosystem, spawning companies that have built success by exploiting its network of online friends

"It is because of Facebook's meteoric growth that a whole cottage industry has been created that either builds applications on the Facebook platform, or creates ads on Facebook," said Jamie Tedford, founder of Boston-based Brand Networks Inc., which has grown to 50 employees since it started creating specialized programs to help companies advertise on Facebook.

"When we started in 2007, it was seen as a niche, and a lot of people thought we were crazy building a company on Facebook," said Tedford. "Now it doesn't look like such a bad bet."

Beth Healy of the Globe staff contributed to this report. Michael B. Farrell can be reached at michael.farrell@globe.com.

Copyright © 2012 The Boston Globe