From: Michael Perry
Sent: Wednesday, May 23, 2012 11:30 AM
To:
Subject: Relevant Thoughts on Facebook IPO

Team,

I am considering posting an edited version of this on the blog. mp

Before Facebook went public last Wednesday, they were a fabulous company led by a visionary leader and a strong, well-respected and capable CFO.

They go public last Thursday and the stock declines from the public offering by about 20% or $20 billion……the IPO benefits management, employees, private equity investors who built the company up and took the risks getting it to where it is……the 20% decline benefits small retail shareholders who can now buy at or below the institutional investors. It screws sophisticated institutional investors…….who were expecting their one-day, “freebie”, “no risk”, upside of 20% or more (some have gone up almost 100%)……no one complains or investigates or sues when these deals rocket and basically management/employees/private equity investors get screwed and most importantly “mom and pop retail investors” get shut out and forced to buy….if they want to invest…..at much inflated first or second day price.

Zuckerberg has been a public company CEO for just 4 business days and he has already been sued for securities fraud by private class action plaintiffs and CNBC and other pundits are calling for Zuckerberg to return from his honeymoon and defend the company.

The well respected CFO is being partially blamed for the deal’s performance……”That decision by the 41-year old Facebook executive (CFO David Ebersman) may have doomed any real chance the social-networking company had that its stock would jump on its first day of trading….a hallmark of successful IPOs.” (WSJ)

The Securities and Exchange Commission has announced an investigation.

The Financial Industry Regulatory Authority pledged a probe.

Think about it…..you and your CFO did nothing wrong, other than build a fabulous, worldwide company from scratch that is now worth (even after the 20% decline) over $80 billion and employees lots of Americans (privacy issues aside). Who is wrong here…..it is Wall Street pundits and the institutional investor crowd and the SEC. An IPO of a new company, without a fully established business model and with tremendous uncertainty about its future prospects…..the initial valuation should be a BIG guess and investors who invest in it should know that it is a VERY speculative matter. These investments shouldn’t always go up (like the WSJ quote above)….an equal number should go down in their first few days or they are not being fairly priced (to all parties involved). The SEC should say that…..that they have no business investigating these unless there is some evidence of securities fraud….because they would expect these offerings for companies like Facebook, to go up or down by 100% or more in the short-run as the market settles on its current views of a proper valuation.

Mr. Zuckerberg and Mr. Ebersman, welcome to the world of U.S. publicly-traded corporation management. Where your life will be dominated with regulatory and legal compliance and investigations; like internal controls over financial reporting and SOX-certifications, defending yourself against meritless litigation, having to excessively focus on short-term issues that the public-market participants demand, and where the time you have to focus on your core business will be substantially reduced forever: to the detriment of your long-term shareholders, your employees, and our U.S. economy.

Michael W. Perry
Chairman
RaubHIL LLC