

From The Desk Of John Colley...

Re: Facebook

As most of you know, “yours truly” is an avid reader and researcher from way back. Lately, I’ve been reading everything I can about Facebook and I have a list of potential investors who are interested in the company’s upcoming IPO. It’s very exciting and the buzz has an “electric” charge to it. Unfortunately, because of reasons relating to high security, SEC “wall” protections, the possibility (even if slim) of fraud/hacking issues, CAM (JC) unfortunately can not use Facebook on my site. So, please know I would love to “friend” people, but it’s prohibited for now.

Perhaps a more important question we need to look at and answer is “should you friend” the Facebook IPO? The IPO, probably due out in the May/June timeframe, will be the biggest debut for a tech company ever. Facebook is a spectacular company that has been in existence almost 8 years and it has single-handedly revolutionized how people communicate online.

The dorm room experiment started by Harvard genius/dropout Mark Zuckerberg (27 years old) is expected to sport a valuation approaching \$100 billion. At the recent Economic Forum in Davos, Switzerland, Facebook’s COO Sheryl Sandberg reported that the company has already created more than 450,000 jobs in the U.S. and Europe since it’s humble, but tumultuous beginnings. The site already boasts of 800 million active users and a whopping 50% login ratio every day. (This login ratio may require further explanation as the 50% is now being questioned.)

The next steps will be interesting and they begin with a review of recent S-1 filings and the challenging task of living up to Wall Street’s lofty expectations under a public microscope.

Facebook’s IPO prospectus (just filed with regulators) revealed a profitable and fast-growing business built upon online transactions,

network credits and booming advertising revenue. In all honesty, however, the \$3.7 billion in revenue last year was at the low end of analyst expectations and underscored the wide gap between the actual and the hoped for expectations.

Some experts I've talked with say that you will be paying up for the name—perhaps a premium of about 1/3 (a 33%-35% mark up). Another guru from Silicon valley said the company, after looking at the math (balance sheet) is worth about \$50 billion (perhaps \$100 billion is a tad lofty). Facebook's revenue growth rate (up about 88% in 2011) is a little shy of Apple and Baidu's rate of growth, but still quite impressive (especially when you remember they are out there in 70 languages) and when you figure half of the users spend about 7 hours a month on the site (this is a wower!). In any event, the tangible valuation will include intangibles, as we know.

Some argue that social networking fatigue could set in, while others believe the growth has lots of upside as exciting advertising/sales applications will fuel growth like Google's did just a few years ago. Google's rise has been meteoric but very spiky at times—moving 55 points in a day (10%-12%) is a regular occurrence.

Only a few brokerage houses will have allotted shares to sell to individual investors (perhaps about 10% of the total being floated). The majority of shares have been secured by a few institutional mutual funds, insiders and the Facebook workforce. Usually, the shares available become “very precious” and are already reserved for or promised to “big whale” clients who often buy other IPO's (the regular supporters of these IPO's often get first choice). I don't like the system, but it's how it works. Raymond James, for example, will not be participating in the Facebook IPO and was not an underwriter.

It is believed that the IPO will be met with insider selling pressure right from the onset and then again as the restrictions on “144-stock” or designated options become eligible for sale by insiders and employees of Facebook waiting to “cash out” and “head for the

beach". Of course, this will be offset by the buying frenzy of individual investors and newcomer mutual funds and hedge funds that want to get in "on the action". All of this will add to the up and down volatility that we've seen with other high profile IPO's. In fact, because of the global participation in Facebook, there is likely to be a broad spectrum of participation as users may want to own shares outright.

As we get closer to the IPO launch, I will be providing you with more scoop and financial analysis. If you are interested and would like to be put on our "special interest" list, just let us know. We will keep you posted of upcoming developments and even the best strategies to use if buying.

All the best and stay tuned.

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