Exclusive: Facebook investors look for exits

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NEW YORK | Wed Apr 27, 2011 6:34pm EDT

(Reuters) - A group of Facebook shareholders is seeking to offload $1 billion worth of shares on the secondary market, a sale that would value the company at more than $70 billion, according to five sources with direct knowledge of the situation.

It would represent one of the largest transactions of Facebook shares to date and points to a growing wariness among early-stage investors and employees who fear Facebook's growth cannot keep pace with its market valuation.

The sellers have lowered their price after previously trying to offload shares at a price that valued the company at $90 billion, which would make Facebook more valuable than Time Warner Inc and News Corp combined. But buyers balked.

"At the current valuation where it is, it is really hard to justify the investment," said Sumeet Jain, partner at venture capital firm CMEA Capital, who has examined Facebook deals recently and has taken a pass. "It's hard to imagine it will turn into a $270 billion company in the next few years."

The current deal, which includes stock held by Facebook employees, is awaiting approval from top Facebook executives including Chief Executive Mark Zuckerberg and Chief Financial Officer David Ebersman, according to two sources.

Facebook declined to comment.

Investors, ranging from venture capital firms to rich individuals to investment banks, have scrambled to get a piece of the privately held company before its expected IPO next year.

Facebook raised $500 million from Goldman Sachs Group, and Russia's Digital Sky Technologies, for instance, giving it a market value of $50 billion. Weeks later, private equity firm General Atlantic piled into the company, valuing it at $65 billion, according to CNBC.

Tim Draper, the well known venture capital partner who founded Draper Fisher Jurvetson, told Reuters this month he recently looked at buying shares of Facebook deals, but passed because of an unattractive valuation.

One wealthy person, who has fielded calls for the past month involving Facebook pitches in the range of $200 million to $1 billion, is also sitting on the sidelines.

"It's priced to perfection in the private marketplace," said the person, who did not want to be named. The person said the pitches implied a valuation of $90 billion. "I don't like to own anything I can't sell right now."

Created in a Harvard University dorm room in 2004, Facebook rocketed from an online directory created for college students to the world's No. 1 social network with more than 500 million members worldwide.

The company's astounding growth and popularity have put some of the Internet's biggest guns on notice -- including Google Inc -- and have made it the darling of investors seeking to stake out claims in private companies before they go public.

Facebook, the world's No. 1 Internet social network, earned $355 million in net income in the first nine months of 2010 on revenue of $1.2 billion.

It is one of a handful of Internet companies including Twitter, Groupon and Zynga whose soaring valuations recall the heady days of the late 1990s.

It is questionable whether new investors would realize the exponential growth that early-stage investors got in Facebook, said Oppenheimer & Co managing director Stephen Todd Walker.

That's particularly true, he said, as the company faces more competition abroad from social networking sites like China's Renren Inc, which is expected to go public next week.

"For Facebook, the larger you get, the harder it is to have that explosive growth," said Walker.

Nonetheless, an array of investors has piled into Facebook. Mutual fund giant T. Rowe Price recently disclosed that several of its funds owned stakes in Facebook, valuing the company at $25 per share, which implies a valuation of $50 billion.

Yet one hedge fund manager who passed on smaller Facebook deals recently said that, for him, the opportunity to get in on the action had passed.

"By the time T. Rowe Price is investing," he said, "you know it's too late."

(Additional reporting by Alexei Oreskovic in San Francisco; Editing by Kenneth Li, Steve Orlofsky and Robert MacMillan)