



Foundations of Finance – A2 Assignment – Individual Assignment

Assignment Instructions:

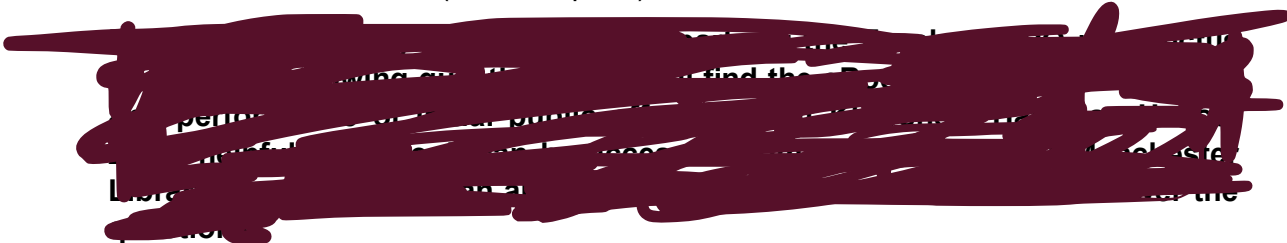


Word count (if applicable)	3000 words
Weighting	50%
File Format	PDF
Submission Details	Blackboard – instructions provided on Blackboard

Assignment Questions:

The assignment is based on the following three documents

- A case study 'The Facebook IPO hype: a rude social awakening'
- Facebook IPO prospectus
- An Excel file containing daily share price of Facebook since its IPO (FB shareprice)



(i) An IPO marks a strategic milestone for a company.

(a) Explain the generic benefits and drawbacks of going public.

(b) What motivated Facebook to go public?

(6 marks)

(ii) Facebook had several avenues to raise funds. Why was it relatively easier for Facebook to raise capital from the stock markets over debt? Was an IPO the most suitable choice?

(6 marks)

(iii) On page 37 of the IPO prospectus, Facebook provides information on the 'Use of proceeds'. What is your view on how Facebook planned to use the capital raised from the IPO? Should Facebook invest IPO proceeds in financial securities?

(6 marks)



(iv) Is it correct to state that Facebook raised \$16 billion through its IPO? Why or why not?

(6 marks)

(v) Facebook offered only Class A stock through the IPO. Who were the primary purchasers of these shares? How would new investors be affected by the dual-class share structure?

(6 marks)

(vi) What is an IPO over-allotment (Greenshoe) option? Did Facebook include such an option in its IPO?

(6 marks)

(vii) What are IPO lock-up agreements? Describe the lock-up agreement of the Facebook IPO.

(6 marks)

(viii) The underwriting investment bank takes on a central role in the IPO process.

(a) What are the key tasks executed by the underwriter?

(b) What are primary considerations when selecting an underwriter?

(c) Often, multiple underwriters are involved. What are the main motivations for syndication?

(d) How much compensation was paid to the underwriters of Facebook? Do you think it is comparable to the average compensation paid to underwriters in US IPOs?

(e) What do you understand by 'price-stabilization' activities conducted by the underwriter(s)? Do you think the underwriters were involved in price-stabilization of the Facebook IPO?

(20 marks)

(ix) Describe what happens during 'book-building' of an IPO. What price range was used for book building of the Facebook IPO? Why do you think Facebook priced its offering at the top end of the book-building range?

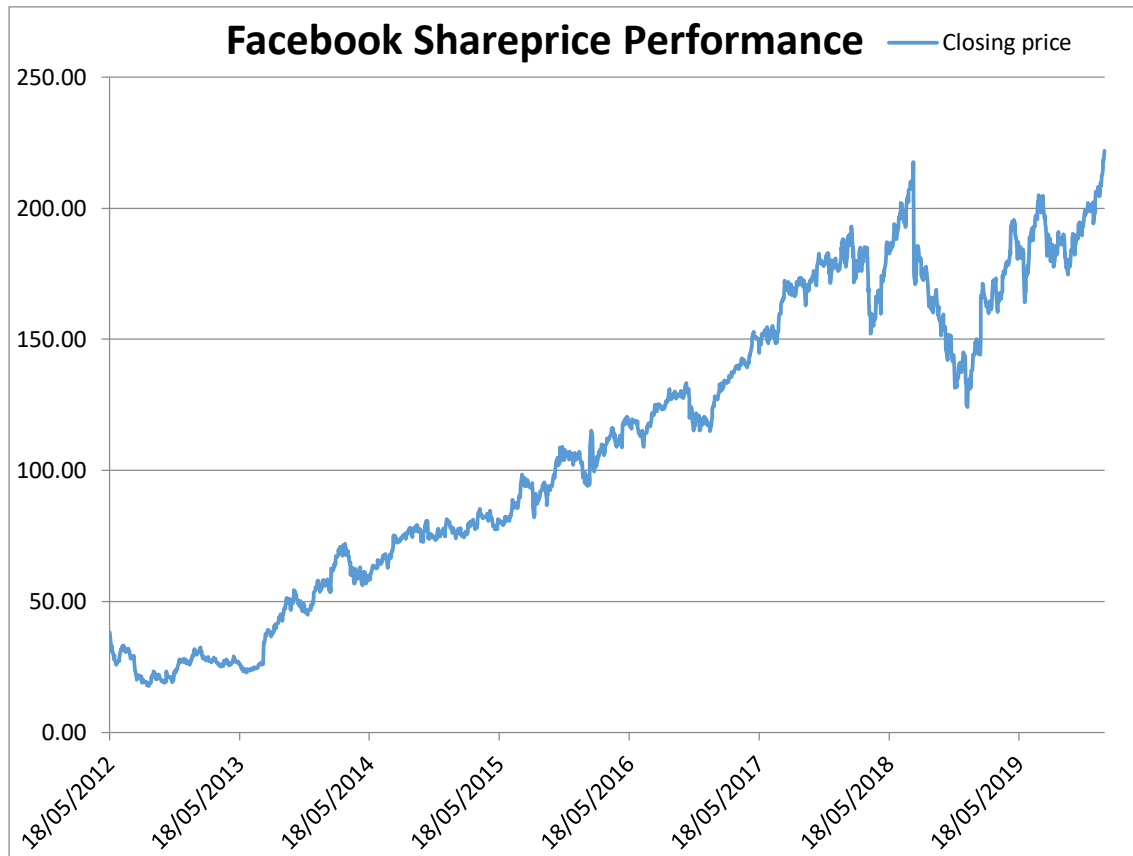
(5 marks)

(x) Assess Facebook's issue price (\$38) in light of the valuation data and parameters provided in the case within DCF (Discounted Cash Flow) and CCA (Comparable Companies Analysis) techniques. Briefly evaluate the valuation performed by Prof. Damodaran in Exhibit 17 of the case study.

(18 marks)



(xi) The diagram below shows the performance of Facebook shares from May 2012 to January 2020. The first day of public trading of Facebook shares was 18 May 2012. Shares were sold in the IPO at an offer price of \$38. More information on daily share price movements is available in the Excel file (FB shareprice).



Source: Yahoo Finance

- (a) How does the performance of the Facebook IPO compare with average IPO performance documented by past empirical studies:
- in terms of the short term performance of the Facebook IPO?
 - and over the longer term?
- (b) Past studies have suggested a number of explanations for short-run underpricing and long-run underperformance of IPOs. Discuss the ones which you think are relevant to Facebook's case?

(15 marks)

End of assignment