

Are “Commoners” Overvaluing Twitter and Facebook?

November 24, 2009

NYPPEX Private Markets tomorrow will release new research, arguing that secondary market investors are overvaluing VC-backed Internet juggernauts Twitter and Facebook. Specifically, the New York-based group believes that individual investors using private-market stock exchanges are paying VC-sized valuations without the corresponding benefits.

Take Twitter, which recently raised around \$98.2 million of Series E funding at a \$1.13 billion post-money valuation (\$15.98 per share). NYPPEX says recent “odd lot” bids for the company have been at a \$1.29 billion valuation, or \$20 per share. A big different, of course, is that the Series E round consists of convertible preferred stock with a 1x liquidation preference. The “odd lot” shares, on the other hand, are plain vanilla common stock. In other words, folks buying on secondary exchanges are paying more for less.

Highlighting the discrepancy even further are institutional secondary bids for Twitter’s common stock, which are far lower than either the “odd lot” common bids and the Series E price.

NYPPEX finds that “odd lot” bids for common shares in Facebook and LinkedIn are more reasonable, but still don’t always account for the lack of preferential treatment. It says that such offers for Facebook shares have been using a \$7.6 billion valuation, or \$17.50 per common share, compared to a Series E value of \$10.05 billion, or \$22.71 per convertible preferred share. “Odd lot” offers for LinkedIn value the company at \$1.25 billion, or \$12 per common share, compared to a Series D value of \$1.27 billion, or \$11.47 per convertible preferred share.

In both cases, institutional offers on the secondary market were much lower.

It’s also worth noting that NYPPEX believes that both Twitter and Facebook are overvalued, suggesting that more reasonable enterprise valuations would be \$474 million and \$5.49 billion, respectively. It believes LinkedIn is slightly undervalued, suggesting its worth at \$1.5 billion.