



“Commoners” Keep Overvaluing Facebook, Twitter & Tesla

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Last fall, NYPPEX Private Markets issued a report about how secondary market investors were overvaluing VC-backed juggernauts Facebook and Twitter. Not only were they paying more for their shares than were venture capitalists, but they were getting common stock instead of preferred stock.

Now, NYPPEX is planning to release a new report suggesting that only two things have changed: (1) Secondary market investors are overpaying by even more; and (2) Facebook and Twitter have been joined by Tesla Motors.

“In effect, they are betting on further significant revenue growth and a highly successful IPO,” says Larry Allen, managing member of NYPPEX. “If one of those two events do not materialize, then today’s secondary investors may be providing the exit.”

Let’s take a quick look at each of the three companies:

TWITTER

NYPPEX reports that “odd lot” secondary market investors are now valuing Twitter at nearly \$2.61 billion, or \$34.89 per common share. This is more than twice the \$1.13 billion post-money valuation that VCs paid for preferred stock in Twitter’s most recent funding round, and a 365% premium to the \$561 million fair market value estimated by NYPPEX.

That latter figure includes a 2% upward adjustment for Twitter’s ability to grow rapidly without much spend, a 4.5% downward adjustment due to uncertainty regarding Twitter’s revenue model and a 2% downward adjustment for the possibility that Twitter could be crushed by a social network like Facebook.

NYPPEX is obviously valuing Twitter much lower than did its venture capitalists, which is why you need to keep that common/preferred issue in mind. Cumulative shareholder liquidation preferences total around \$157 million, which is almost exactly the amount of venture capital Twitter has raised. In other words, there’s a lot of downside protection on the preferred (assuming that Twitter doesn’t fall into a black hole).

The only real bright spot for secondary buyers in the report is that NYPPEX’s \$561 million valuation is 18% higher than was its \$474 million valuation last fall, indicating that the trendline is at least moving in the direction of higher value.

FACEBOOK

NYPPEX estimates that Facebook is currently trading at \$49.97 per common share on secondary exchanges via “odd lot” transactions, which would value it at a whopping \$22.14 billion. That’s a 204% premium to the NYPPEX fair value estimate of \$7.23 billion, and way higher than Facebook’s recent VC round valuations of \$15 billion (the Microsoft round) and \$10 billion, respectively.

The NYPPEX estimate includes a 4.5% upward adjustment for Facebook’s continued ability to add large numbers of users, a 2.5% upward adjustment for its user base diversity and a 2% downward adjustment for concerns that its Western user base may be peaking (in part due to privacy concerns).

NYPPEX estimates that Facebook's cumulative shareholder liquidation preferences total around \$678 million, which is a few million dollars more than the company has raised from venture capitalists.

TESLA MOTORS

NYPPEX estimates that the electric car maker is currently trading at a \$2.22 billion valuation on the "odd lot" secondary market, or \$9.01 per share. That's a 154% premium to the NYPPEX estimated fair value of \$872 million, and around 3x the post-money value of Tesla's last venture capital round.

The NYPPEX estimate includes a 2% upward adjustment for Tesla being the first all-electric, high-performance car company and a 2.5% upward adjustment for its battery group subsidiary.

NYPPEX estimates that Tesla's cumulative shareholder liquidation preferences are \$234 million, or just about the amount of VC that it has raised.

Worth noting that the Tesla estimates may soon be moot, as the company is in registration for an IPO (no proposed pricing terms yet). Will be interesting to see if public shareholders give their own downward adjustment to Tesla's admission that it can't be profitable for at least the next year.

Finally, NYPPEX also took a look at secondary trading valuations of Zynga and LinkedIn, which it found to be much more reasonable. Zynga is being traded by secondary buyers at a \$2.8 billion valuation, compared to an NYPPEX estimate of \$2.58 billion. LinkedIn is being traded by secondary buyers at a \$1.57 billion valuation, compared to an NYPPEX estimate of \$1.48 billion.

