

# Free essay about history of facebook

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Founded during the year 2004, Facebook today is the world's most loved social networking site. However, the success of the company is equally contributed through venture capital, which the company raised in various rounds of financing over the years. The company raised its first successful funding from the venture capital firm, Accel Partners during 2005, which made a bet of \$12.2 Million on a year old website which was run by a college drop out. The amount was raised solely for the expansion of the company and to reach out to more and more users. The funding raised the valuation of the company to \$87.5 Million. Accel Partners will be happy with their decision as the company now holds stake worth \$7.7 Billion and also inclusion of Jim Breyer, Managing Partner in Accel Partners, holding a position in Board of Facebook Inc. (Levy, 18)

However, post the investment by Accel Partners and before raising next financing from Greylock Partners and Meritech, the company started actively shopping for buyers around \$2 Billion. During the period, the company continued to grow and started their photo sharing service. Although, numerous buy offers in the range of \$700 Million- \$1 Billion were offered to Facebook, but were eventually declined. Soon after this, during April 2006, the company was funded by two additional venture capital investors along with Accel Partners i. e, Greylock Partners and Meritech. With \$27.5 million additional funds raised, the valuation of the company reached \$500 Million. Bill Helman, a Greylock partner in Waltham, did some key analysis that showed " that Facebook had a reasonable amount of revenue, and was growing like a weed. The two firms' stakes are now worth around \$1.39 billion and \$1.53 billion, respectively. (A Trip Down Memory Lane:

Facebook's Private Years, 2004-2012, 2012)

Although the reason for additional funding was said to be supporting growth, but Facebook Inc. with the second round financing from Accel Partners, Greylock Partners and Meritech, made its first acquisition by buying Parakey. Parakey was a web-based interface contributed by popular web-browser's co-founder Blake Ross and Joe Hewitt. The acquisition was made with the objective to bring these two tech entrepreneurs on Facebook's Board. These incidents were turning in favor of Facebook and the valuation was touching sky-high. The funding sources of the company expanded during 2007, when Microsoft took a \$240 Million stake in Facebook to become Facebook's "exclusive third-party advertising platform partner" and to also sell Facebook's international advertising. (Sloane, 2007) Post the investment by Microsoft, the valuation of the company for the first time crosses a billion and after the deal, Facebook was valued at \$15 Billion. Over the time during 2008-2009, the company saw many new investors funding Facebook. Hong-Kong businessman, Ka shing invested \$60 Million, followed by \$15 Million from European Founders Fund. The financing by Microsoft at a valuation of \$15 Billion even when the annual revenue was only \$150 Million, made Facebook the 5th most valuable internet company in the US.

With growing numbers of members and increasing amount of online advertising revenue, the company reached new records of market valuation. However, despite of numerous rounds of million dollar financing, company started looking for another \$100 million investor during late 2009. This was in particular to support with the increasing cost of storing member's information and with lost revenue % during the financial crisis of 2008.

During 2008, the company launched their website in numerous languages and with growing amount of members, the cost of managing the data was increasing. Thus, the company required additional funding to finance growing need of computers, equipment, servers and internet bandwidth. The big financing finally came from Digital Sky Technology(DST) when the company invested \$200 Million for a 2% stake in Facebook. However, at this time the market valuation of facebook which was once said to be overhyped by Microsoft fell to \$10 billion. Thus the market was full of discussions as what is the actual value of Facebook. “‘Would Viacom buy Facebook for \$15 billion? Absolutely not,’ said Wade Davis, senior vice president at Viacom. ‘ Nor did we want to pay \$1 billion. There is a lot of hype, a lot of activity, but a lot of dollars aren’t being made.’

However, during September 2009, the number of active user of Facebook reached 300 Million and the annual revenue reached \$775 Million and Net Profit of \$200 million. With growing number of users and courtesy high advertising revenue, by the end of December 2010, the annual revenue of the company reached \$2 Billion and net profit of \$500 Million. The valuation of the company again went sky height and touched \$23 billion when Elevation Partners invested \$120 Million by buying shares of the company in the secondary market. (Mangalindan, 2011)

Another significant venture capital investment to Facebook came when the big investment bank, Goldman Sachs invested \$450 million and the existing investor DST made an additional \$50 million investment. Goldman Sachs also facilitated the company to raise and additional \$1. 5 Billion through a special purpose vehicle so as to allow the outside investors to indirectly

invest in the company. The new financing was directed to cash out some of the existing employees and investors. Further, the company had a line of acquisitions of which Sun Microsystems of Oracle Corporation was the most significant one. Since the deal will not be cheap, the company needed huge funds to assist the purchase. This new campus will help the company to grow in the foreseeable future. Apart from acquisition plans, the company also used the funds to ramp up its hiring. A company with \$50 Billion valuation was operating with only 2000 employees and it was necessary for the company to increase its head count. The new round of financing was also planned to support Facebook expansion into the other markets. Since inception the company had stayed on social networking but just like its competitors it could launch a range of products for its customers. (What Will Facebook Do With All That Money?, 2011)

### **Below is the layout of the various financing rounds in Facebook and respective valuation at that time:**

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### **Works Cited**

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