VC Nation

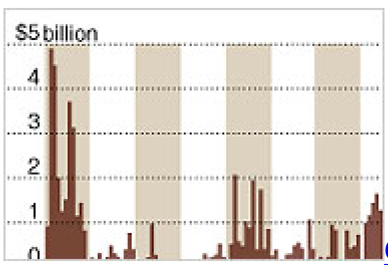
Door Is Open to High-Tech Offerings That Meet Thresholds

By BRAD STONE
Published: June 29, 2007

DAN NYE is perhaps the most publicly accessible chief executive on the planet. Anyone can contact the head of LinkedIn, a social network based in Mountain View, Calif., simply by visiting his personal profile page on the service and sending him a message.

Skip to next paragraph

Multimedia



Graphic

Initial Offering, Anyone?

Lately, investment bankers have been taking advantage of that. Mr. Nye says that at least one banker each week sends him an unsolicited e-mail message, asking when he plans to go public.

“I’ve said to every single one, we’re not planning to do an I.P.O. anytime soon,” Mr. Nye said. “But it shows that if you are building a company with predictable revenue streams and a strong growth story, the market is ready to reward that.”

The window for public offerings is slowly beginning to open after largely being closed to technology companies since the double whammy of the dot.com downturn and the Sarbanes-Oxley Act of 2002, which imposed expensive accounting responsibilities on public companies.

According to preliminary data from the National Venture Capital Association and Thomson Financial, there were 27 public offerings of venture-backed technology companies in the last three months.

That is more than any quarterly period since the Google-fueled buzz of late 2004 — and before that, since the heady days of the late 1990s.

On Wednesday alone, five high-technology companies went public, including the Internet traffic measurement company comScore, whose shares started selling on Nasdaq at $16.50, raising $73.7 million. The shares closed yesterday at $25.59.

“There is no question that for Internet and networking communications companies, the market was slammed shut for several years,” said Jim Breyer, managing partner at Accel Partners in Palo Alto, Calif., which has a stake in comScore.

Mr. Breyer says he first started to notice that the public markets were opening when another company he invested in, the data storage firm Riverbed Technology of San Francisco, went public last September.

“What Riverbed showed to many of our portfolio companies was that there was significant demand for high growth on-their-way-to-profitability types of businesses in the traditional technology segment,” Mr. Breyer said.

What changed? Historically, very little. When sanity returned to the market after the bust, the standard for becoming a public company reverted to preboom levels.

Venture-backed companies had to do more than demonstrate good customer numbers, or in the vernacular of the first dot.com boom, “lots of eyeballs.” Now, venture capitalists say companies need to have at least $100 million in annual revenue, positive cash flow and a clear path to profitability.

Only now are the technology companies created earlier in the decade that survived the bust reaching those milestones. “I don’t see a lot of companies today with $100 million in revenue and a 100 percent growth rate that are trying to go public but can’t,” said Erik Strasser, a partner at Mohr Davidow Ventures in Menlo Park, Calif.

That is good news for venture capitalists who are still cleaning up their books. In lean times, venture capitalists had to rely on acquisitions of their companies to see returns and pass them along to investors, or limited partners, in their funds. And that dependence on buyouts was unhealthy. Without a robust initial public offering market, buyers typically have more leverage, since start-ups may struggle to raise capital.

Still, despite the early enthusiasm, the market may not yet be back to full speed. Many companies that have gone public in the last year, like Riverbed Technologies and Data Domain, a storage company based in Santa Clara, Calif., that reached the market this week, are infrastructure technology firms. Aside from the Web photo-site Shutterfly, which went public in September, few consumer Internet companies have tested the public market.

But that might change soon, too. The promising public market has revived another ritual in Silicon Valley — speculation about companies poised to file for offerings.

Recent speculation has swirled around LinkedIn, and OpenTable, which lets users book restaurant reservations. This month, the company hired as chief executive, Jeff Jordan, a former PayPal and eBay executive who was once talked about as the successor to Meg Whitman. The hiring was largely seen as a sign of an impending offering; OpenTable declined to comment.

Then there is Facebook, the fashionable social networking site, with 27 million members. The site's 23-year-old founder and chief executive, Mark Zuckerberg, has indicated his preference for staying independent and going public.

A Facebook offering, venture capitalists say, could infuse the industry with the kind of open-for-business optimism that Netscape supplied in 1995 and Google provided so briefly again in 2004.

"If Facebook goes public, that tells me, depending on the valuation, that companies building digital media businesses are able to go public and the market is valuing them highly," said Todd Dagres, a partner at Spark Capital, based in Boston. "They are able to go public because the market is confident that they should."