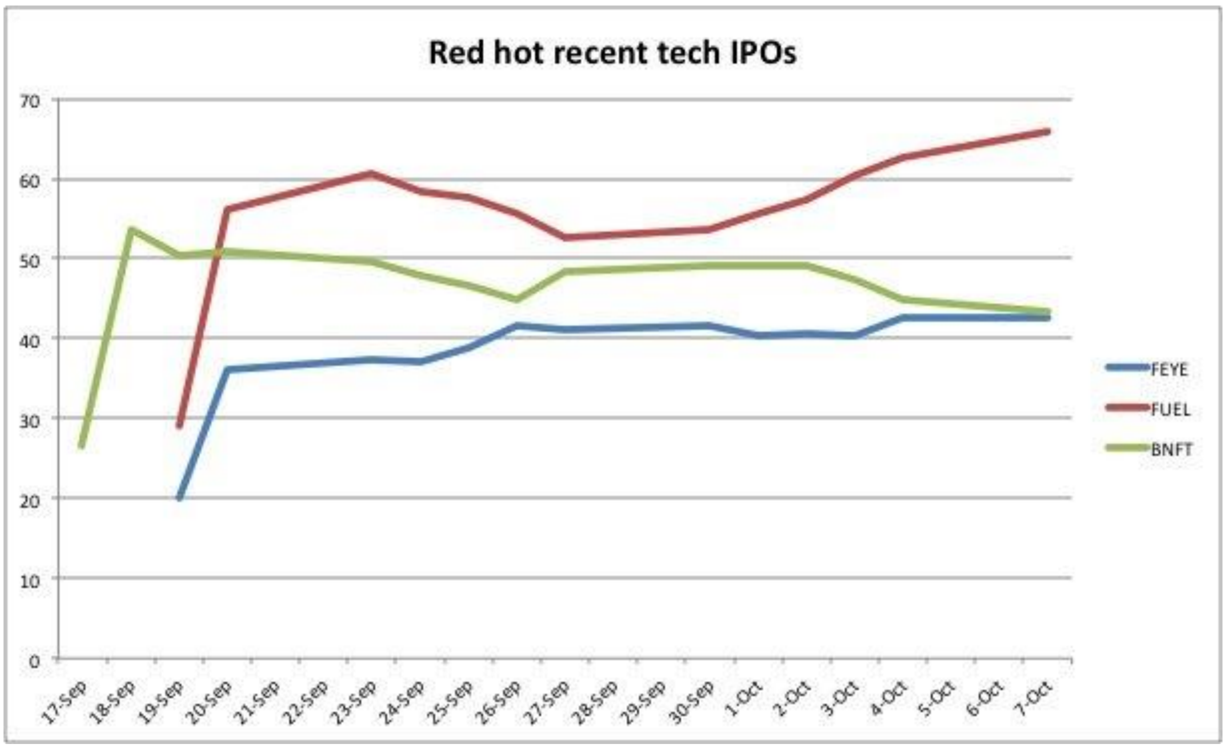
Tech IPO Market Partying Like It's (Almost) 1999

By Aaron Pressman | The Exchange – Tue, Oct 8, 2013 11:21 AM EDT

Tech IPOs are red hot. How red hot? Try before-the-Internet-bubble-popped red hot.

The average one-month share-price gain for 2013 technology company IPOs is up to 39%, according to market tracker Dealogic. That's the highest since 2000's 71% average return and 1999's so-insane-it-looks-like-a-misprint 142% gain.



And that's not even counting the mid-September IPOs of FireEye (FEYE) and Rocket Fuel (FUEL), whose stock prices have both more than doubled, and BenefitFocus (BNFT), up 63%. Those three and a couple of other big gainers won't hit their one-month anniversaries for two more weeks.

So far this year, Dealogic counts 26 tech IPOs put of 145 total companies going public. That's on par with the pace of the past few years, but nowhere near the levels recorded in the Internet bubble when 194 tech companies went public in 2000.

The euphoric reception for money-losing tech companies should guarantee strong demand for social networking giant Twitter, expected to price its $1 billion deal just before Thanksgiving. But it's also raising concerns that the tech market could get overheated and stumble if the economy slows much more.

Still, the current crop of deals appears to have more solid business prospects than those from the bubble era. As Barron's famously pointed out in an April 2000 article, many firms that went public at that time were burning cash so quickly they'd be out of business in a matter of quarters.

Twitter, by contrast, had positive cash flow from operations in the first half of 2013 and $375 million on hand.

It's still a long way from reporting profits, however, at least under generally accepted accounting principles. A net loss of $69 million in the first half was up 41% from the same period a year ago.

In the years after the Internet bubble burst, profits were just as important as revenue growth – Google (GOOG) made $105 million the year before it went public. But that metric has fallen by the wayside as investors have become increasingly excited by the growth potential in hot areas like cyber security, cloud-based software services and digital advertising.

"The tech sector is alive and well," says Francis Gaskins, president of IPOdesktop.com. "Investors are looking for branded companies that have big top-line revenue increases."

Investors are looking past some GAAP costs, like stock compensation for employees, tantalized instead by high gross margins and recurring revenue streams from subscriptions, Gaskins says.

The hunger for fresh start-ups comes at a time when the share prices of the biggest tech companies have slipped on concerns about slowing revenue growth, shrinking margins and vulnerability to cloud-based challengers. Shares of Cisco (CSCO) and IBM (IBM) are down 7% over the past three months, while Microsoft (MSFT) shares have slipped 3%.

By contrast, FireEye is growing quickly, more than doubling its revenue in the first half of 2013, as it charges subscription fees for a new breed of security software that tries to keep networks safe even from previously unknown malware. RocketFuel, which uses artificial intelligence programs to buy online advertising spots, is growing even faster. Neither has reported a profit.

Both companies went public on Sept. 19. FireEye, which priced at $20 a share, closed at $42.66 on Monday with a market cap of $5 billion. That's about 43 times its trailing 12-month revenue, according to Yahoo Finance data.

Rocket Fuel priced at $29. It's up to $65.96 and a $2.1 billion market cap, trading at a more reasonable 13 times revenue.

Still, not every recent tech IPO has been a hit. Violin Memory (VMEM), which makes high-speed flash storage for computer servers, has tanked since going public, dropping around 19% from its IPO price of $9 to $7.27.

Violin lost its biggest customer, Hewlett-Packard (HPQ), last year. And the company attracted negative attention for paying CEO Donald Basile almost $19 million in 2012, a year when Violin reported a loss of $109 million. And while others like FireEye and Rocket Fuel have reported losses, Violin stands alone among recent IPOs with losses exceeding revenue.

And that sounds a lot more like an IPO from 1999 or 2000.

A version of this article appeared October 8, 2013, on Yahoo! Finance, with the headline: Tech IPO Market Partying Like It's (Almost) 1999.

http://finance.yahoo.com/blogs/the-exchange/

To keep up with all the latest tech industry news, follow Aaron Pressman on Twitter and Tumblr.