Box's IPO delay a sign of Silicon Valley cool-down

May 12 2014

The wild ride of hundred-million-dollar investments and soaring initial public offerings that opened the year for the technology industry has stalled thanks to the recent gyrations on Wall Street, forcing big-name software companies, most recently cloud storage startup Box, to rethink their market debuts.

The reluctance to go public is the latest sign that the tech sector is cooling off - which some experts say is a healthy change from the irrational levels of investments and off-the-chart valuations in the past year or more that sparked fears of a bubble.

"We need a slowdown," said Stamos Venios, co-founder and managing director of San Francisco startup venture fund Data Elite. "Things are a bit over-hyped."

Box, which sells software for businesses to store and manage files in the cloud, could have listed shares by mid-April after filing for an IPO on March 24. Instead, the 9-year-old company is waiting for the market to rebound. While there are no requirements for when a company must begin trading after it files an IPO, companies may announce pricing and begin a roadshow - when executives hold meetings with potential investors to drum up interest in their company - within 21 days of an IPO filing.

Box, which could only offer limited comments because it is in a quiet period, said it has no plans to withdraw its IPO filing.

"Our IPO has never had a set date," said a company spokesman. "Since filing, we've planned on going when it makes the most sense for the market. That plan hasn't changed."

Los Altos, Calif.-based Box has watched its fellow enterprise software companies that have already gone public take a beating on Wall Street, including Workday, a Pleasanton, Calif.-based company that makes software for human resources; San Francisco cloud-based data service Splunk; and Cornerstone OnDemand software from Southern California.

In addition, cloud-based customer service software provider Zendesk and mobile device security and management company Mobile Iron filed for IPOs around the same time as Box and also have declined to set a date for listing shares.

It's a market change that many say could help rein in the tech industry and the overvaluation of companies that aren't making profits and yet have, over the last year and a half, been able to demand huge IPO prices. Social media, 3-D printing and cloud computing companies such as Box have been among the frothiest valuations, experts say. Twitter shares traded above $50 on its first day; on Friday, shares closed at about $39, a 22 percent drop. The shares fell further this week as insiders got their first chance to sell shares, according to media reports.

"When you see big names dropping 20 or 30 or 40 percent, the most notable one being Twitter, (investors) realize that these stocks do not just continue to appreciate without performance," said Scott Kessler, an analyst with S&P Capital IQ.

Now, Kessler said, investors aren't as gung-ho about companies that are burning through cash and not making profits - like Box.

Going public without profits hasn't been uncommon in the past couple

years; Twitter lost $64.6 million in the quarter before it began publicly trading. But experts say Box is feeling the first winds of a more reserved market.

"It's going to become more difficult for these kinds of companies to go public and demand these kinds of prices," Kessler said. "People aren't as comfortable or confident in those kinds of companies."

But Venios of Data Elite says investors shouldn't overreact to Box's spending. Venios, who advises and invests in enterprise startups that build cloud technology, said "it's completely normal" for enterprise tech companies to lose $150 million per year for several years before they become profitable.

Kessler said the large number of big-dollar acquisitions in the first quarter of this year - such as Facebook's $19 billion acquisition of messaging service WhatsApp - also stoked fears of a tech bubble.

But experts say the valley is hardly careening toward another dot-com-like bust.

"The activity around the larger IPO market is very strong," Bryan McLaughlin, a partner with consulting and professional services firm Pricewaterhouse Coopers in San Jose. "The market for the foreseeable future is going to remain strong."

In the first quarter, tech IPOs grew 160 percent from the same time last year and software investments hit their highest level since 2000. In the valley alone, software investments accounted for nearly half the $4.7 billion in venture funding.

Box and Zendesk may have to cool their heels in a way Twitter didn't, but experts say these companies are still poised to do well. Cloud

software for enterprise is one of the hottest technologies coming out of the valley and will continue to be in high demand as big companies switch over from legacy systems to cloud systems.

Box, they say, will still do well on the public market - whenever it gets there.