

Vonage IPO points to VoIP weaknesses

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So much for thinking telecoms might be going back to the heydays of 1999. After much fanfare, Internet telephone provider Vonage launched its initial public offering Wednesday, only to fall flat on its face. What's more, disappointment with Vonage's Wall Street debut has made some companies reconsider the timing of their own IPOs.

While many start-ups collapsed spectacularly with the dot-com bubble in 2001, some of the biggest losses were seen in the telecommunications sector, as companies invested heavily in costly technologies that were then no longer needed on such a vast scale. Since then, however, with the surge in mobile and online communications in particular, hopes had been high for a resurgence of the industry once again.

Yet Vonage's IPO proved to be the most disappointing among the public offerings offered over the past two years, as its share price tumbled 13 percent on its first day of trading on the Nasdaq exchange. The offering had been priced at \$17 per share, but the stock actually ended the trading day at \$14.85. As a result, the \$531 million IPO led to a net loss of \$67.5 million on the first day of trading, despite the fact that the company has enjoyed considerable attention from investors and has attracted over 1.6 million subscribers to its broadband telephone service since it started operating in 2001.

The company has declined to comment about the performance, as it observes the period of not making any public statements as imposed by federal regulators when an offering goes public.

Still, the fact that company had made a net loss of \$85.2 million over a revenue of \$118.9 million in the first quarter could not have made many investors bullish about Vonage. In addition, while Voice over Internet Protocol is becoming increasingly popular, it is also becoming an ever more competitive market as well. Luxembourg-based Skype has been dominated the field, but it was bought out by online auction house eBay last year. In addition, other Internet giants including Yahoo! and Google have been stepping up efforts to get into the market, while cable companies too have been preparing to offer VoIP as well. Furthermore, Skype's announcement earlier this month that it will be providing its services entirely free of charge to users in the United States and Canada has made many analysts question how profits can be made in Internet telephone, even though its popularity continues to rise steadily.

In the meantime, some companies have announced that they are postponing their IPOs, in part due to their concerns about the disappointing performance of Vonage and signs that investors are less willing to take on risks.

In Britain, two major companies, foreign exchange data service provider CMC Markets and Sigma Capital Investments, said they would hold off listing their offerings until the London markets were less volatile.

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