

The IPO is dead, and Silicon Valley can only benefit

February 26 2010, By Chris O'Brien

Maybe it's the adrenaline rush. Maybe it's the craving of approval. Maybe it's greed.

Whatever the reason, [Silicon Valley](#) just can't seem to get over its fixation with initial public offerings.

But the truth has been staring this region in the face for almost a decade. For startups, the [IPO](#) is no longer king. Acquisitions have claimed the throne. And for that, Silicon Valley should rejoice.

Instead, it sulks. And the [startup](#) community makes the problem bigger than it should be because it continues to insist on measuring its self-worth and success by the IPO yardstick. When people here ask, "Is the IPO back?" they're really saying: "Is Silicon Valley back?"

Friends, Silicon Valley hasn't gone anywhere. But the IPO has.

The IPO vanished after the dot-com bust, and never really returned. Yes, there were a couple of decent years in 2006 and 2007. IPO apologists insist that were it not for the little financial hiccup we suffered (aka, the housing bust), the number of public offerings would have kept right on growing.

For these denialists, let me say this: The IPO is not coming back, overtaken by mergers and acquisitions. You can see the effect of the M&A trend in terms of the number of public companies in Silicon

Valley (a region we define as San Mateo and Santa Clara counties and southern Alameda County).

From the dot-com inflated peak of 417 public companies in 2000, the number has fallen for nine consecutive years to 241. There were never enough IPOs in any year to offset the net loss of these companies, primarily through acquisitions.

And that is as it should be. The bar to going public should be high. Too many of these companies never should have gone public in the first place.

Cleaning out the gutters has profoundly reshaped the valley. We are increasingly top heavy as the biggest companies have gotten even bigger through acquisitions: Hewlett-Packard, Oracle and Cisco Systems. Even Google has recently ramped up its acquisition pace. As these companies get bigger, they're looking outside their walls to purchase the innovation and assets they can't conjure themselves.

Yes, there will eventually be some IPOs again. But not enough to change this dynamic.

So why is this shift good? For starters, the IPO has distorted both the ethics and economics of the valley. The lure of IPOs attracts people seeking easy riches. To them, the valley was one big IPO pinata just waiting for someone with the right stick. These people want to build companies quickly and then flip them to cash out. Who needs them, I say.

Worse, the poison of the IPO mania of 1999 and 2000 has still not cleared the valley's veins. The bubble left the valley with far too many venture capital firms with too much money. Increasingly, venture capitalists have had to look to acquisitions as the best hope for an exit.

But mergers don't produce the returns that an IPO home run does.

That means a big shakeout in the VC community is inevitable. And for those firms that remain, they'll have to be far better at picking winners because they won't have the big IPO payoff to cover lots of bad investments.

Given that their industry has been built by the IPO, it's no surprise to see many VCs desperate to see the IPO return.

But why does the rest of the valley remain so IPO-obsessed?

In part, it's because the IPO has become so central to the mythology of this place. It's hard to match the lightning-strike feel and glamour of the IPO as it rewards the crazy dreams of an entrepreneur by making them fantastically wealthy, at least on paper. Somehow, the acquisition just doesn't hold the same sex appeal or validation.

I do see signs of sanity. Plenty of startups are delaying going public, refusing to give in to the valley's IPO mania. Companies like LinkedIn, Facebook, Zynga and others have remained stubbornly private, even taking extra venture capital in some cases to do so.

Stop asking them, "When are you going public?" Instead, applaud them.

They point to the future of Silicon Valley. It's a place where the bar for IPOs remains high, striking a healthier balance for the innovation economy.

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