

Tech companies eager to sate Wall Street appetite for IPOs

November 16 2012, by Peter Delevett

With Wall Street displaying a voracious appetite for enterprise software stocks, companies are lining up for IPOs.

Silver Spring Networks - whose plans for an [initial public offering](#) have languished for more than a year - and Ruckus Wireless are among those expected to go public within days or weeks. They hope to ride on the coattails of tech companies like Palo Alto Networks, Qualys and Workday, which recently have seen their stock offerings soar.

Yet some observers fear that, in the frenzy of opportunity, unqualified candidates might squeak through the IPO window - and, if they perform poorly, spoil the party for other companies.

"[Silicon Valley](#) in part is like Hollywood: When there's a successful space alien movie, then you have six space alien movies," said Lise Buyer, the investment banking veteran who took [Google](#) public eight years ago and now counsels startups on the IPO process.

"When everybody was hot to trot about social media, nobody cared about enterprise software," Buyer continued. But by helping companies manage their fast-growing digital data, or delivering software remotely via the cloud to save clients money, the current troupe of enterprise startups is wowing investors with rapid growth and a ready audience of paying customers.

Also driving more companies toward the IPO threshold is the JOBS Act,

new federal legislation that lets companies file plans to go public with the [Securities and Exchange Commission](#) in private. If initial signs suggest a lack of investor interest, companies can pull out of the IPO queue without having shared proprietary financial data with the world.

Workday, Ruckus and SolarCity are among companies that have taken advantage of the new rules, which only require a filing to be published within a few weeks of the pre-IPO "roadshow" for prospective investors.

"It keeps your competitors guessing, and you don't go through a Groupon-like, public SEC review that can taint your stock," said Dave Flynn, CEO of Aerohive Networks. The Sunnyvale, Calif., [company](#), like Ruckus, makes next-generation wireless networking technology for corporate clients and is widely expected to begin the IPO process in coming months.

Flynn said "a lot of real good companies got built quietly between 2008 and 2010," when the media and venture capitalists were focused first on the global credit crunch, then on the rise of social media.

With many of those business-to-business companies now primed to go public, "some of these VCs are going to make a lot of money," said Flynn, who was himself an early adviser to Palo Alto Networks (and likely made a small fortune in its July IPO).

Sam Hamadeh, head of New York financial analysis firm PrivCo, said an already-warm IPO market grew superheated during a one-week stretch last month in which five companies - including Workday - saw their share prices rise 20 percent or more on their first day of trading.

Hamadeh said it was the first time in a decade that so many IPOs have soared in the same week.

"These run-ups in pricing are a strong indicator that IPO investor sentiment is high - at least for 'favored' sectors" such as enterprise software," Hamadeh wrote in a note to his firm's clients.

In fact, he said, half of the year's initial public offerings have been by companies focused on those emerging technologies. And the pace began picking up in mid-September, with 20 IPO primings in a 30-day period.

Hamadeh said he expects Silver Spring Networks, which sells cloud-based networking software to utility companies, to begin its investor roadshow this month.

Company officials, citing SEC "quiet period" rules that precede an IPO, declined to comment for this story. But Hamadeh told the San Jose Mercury News, "My sources say they want to get out ASAP, while the IPO window's open."

SolarCity, a solar-panel installer that unveiled its SEC filings last month, is coming out at a time many solar manufacturers have gone bankrupt or yanked IPO plans.

And the company, according to its IPO filing, is being investigated by the U.S. Treasury Department and the IRS for allegedly overstating the value of its solar panels when claiming federal cash grants. A SolarCity representative did not immediately return a call for comment, though the company faces the same quiet period restrictions as Silver Spring and Ruckus.

Despite such potentially worrisome flags, Hamadeh said SolarCity - whose biggest shareholder is Tesla Motors and SpaceX CEO Elon Musk - wants to go public before year's end "for a couple of reasons." "It's showing strong top-line growth. And despite the gloom over the solar market, their growth story is one of the few bright spots in the industry."

Whether Wall Street agrees, Hamadeh added, remains to be seen.

IPO consultant Buyer asked whether a gold-rush mentality could prompt lower-quality companies to go public, took a philosophical view.

"With any window, you have a higher percentage of very strong companies at the beginning," she said, "because the guys who broke the logjam had to be really good for investors to pay attention. Then, the success of the trailblazers inspires also-rans as well."

Yet she contrasted the current landscape to the frothier dot-com era.

"One of the good things we've seen about all IPOs in the last 12 months is that the market has been very selective," she said. "We've seen companies pull their deals, and that's encouraging. It shows that those companies that get to the roadshow finish line have been vetted and therefore should perform better as public companies - keeping the window open longer."

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NEXT UP?

Here are three companies that are expected to go public this month.

Ruckus Wireless, Sunnyvale, Calif.:

-Makes "smart Wi-Fi" wireless equipment for Internet providers and other large companies.

-Offering size: \$145 million

-Share price range: \$13-\$15

-2011 revenue: \$120 million

-One-year revenue growth (2011-12): 59 percent

-Net profit: \$4.2 million, up from a \$4.4 million net loss in 2010

Silver Spring Networks, Redwood City, Calif.:

-Sells cloud-based, power grid management hardware and software to utility companies.

-Offering size: \$150 million (estimated)

-Share price range: Not yet announced

-2011 revenue: \$237 million

-One-year revenue growth (2011-12): 238 percent

-Net loss: \$92.4 million, down from \$148 million in 2010

SolarCity, San Mateo, Calif.:

-Installs and leases solar panels to homeowners, military bases and commercial clients such as Wal-Mart and Intel. Also sells software to analyze and monitor a client's energy use.

-Offering size: \$201 million

-Share price range: Not yet announced

-2011 revenue: \$59.6 million

-One-year revenue growth (2010-11): 84 percent

-Net loss: \$73.7 million, up from \$47 million in 2010

SOURCE: Company filings; PrivCo

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Distributed by MCT Information Services

Citation: Tech companies eager to sate Wall Street appetite for IPOs (2012, November 16)
retrieved 26 April 2024 from

<https://phys.org/news/2012-11-tech-companies-eager-sate-wall.html>

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