Twitter IPO stokes hot market for Internet stocks

October 2 2013, by Michael Liedtke

Internet stocks are heating up again, just as Twitter is preparing to turn up the temperature with its highly anticipated IPO.

Consider what's happened in the past month: The once-scorned stocks of Netflix and Facebook have soared to new highs; Yahoo's long-languishing stock has regained its vigor and surpassed $34 for the first time in nearly six years; enamored investors just poured more than $1.7 billion into secondary stock offerings by LinkedIn and Pandora Media Inc.; and Priceline.com's stock recently broke $1,000, catapulting past its peak reached in 1999 during the dot-com boom.

"There is great demand right now to invest in companies that could be powering the future, but it's a window of opportunity that won't last forever," says BGC Financial analyst Colin Gillis.

As hot as some Internet stocks are, the fervor is nothing like it was in the late 1990s when investors minted dozens of unprofitable companies with rich market values.

"The difference is that investors today are investing on value rather than on emotion and hype, as was the case in 1998 to 2000," says Jeff Corbin, CEO of investor relations consultant KCSA Strategic Communications.

Many of today's investors are judging Internet companies on their individual merits and prospects for growth. "Back then," says Corbin, "just by including the word 'Internet' in a company description or name gave rise to a multi-million if not billion dollar valuation."

Dan Appelman, 54 is a longtime investor in technology who views the current run-up in Internet stocks as a reflection of the ever-expanding role online services play in people's lives. "The Internet is everywhere now, and that wasn't the case in 2000," Appelman says. "It has become like electricity or plumbing."

Twitter couldn't have chosen a better moment to join the party. The timing proved to be ideal for recent IPOs by Rocket Fuel Inc., a company that uses artificial intelligence software to distribute digital ads, and FireEye Inc., a maker of computer security software. The stocks of both Silicon Valley companies nearly doubled in their Sept. 20 trading debuts.

Twitter hasn't set a timetable for its IPO since announcing its plans to go public in a Sept. 12 tweet. Most analysts expect the San Francisco company to complete the process in November or December.

Wall Street's current infatuation with Facebook Inc.'s social network and LinkedIn Corp.'s online professional network bodes well for Twitter. Like Facebook and LinkedIn, Twitter runs a bustling service that relies on free content posted by its users.

With about 200 million users, Twitter is the smallest of the bunch, based on the company's most recent disclosures about its size. LinkedIn has nearly 240 million users while Facebook boasts nearly 1.2 billion active users.

That gap leaves Twitter more room to grow, a prospect that typically appeals to investors.

Twitter's initial public offering will go well if it can draft off of the momentum of Facebook and LinkedIn, whose stocks have more than doubled in value during the past year. The Standard & Poor's 500 index has risen 17 percent during the same period.

For LinkedIn, the gains extended a phenomenal run that began the day it went public in May 2011 at $45 per share. The Mountain View, Calif. company's stock has never fallen below its IPO price and it's now hovering around $250. LinkedIn has won over investors by fueling the belief that its service has transformed the way employers find and recruit workers. The company has also topped analysts' financial forecasts every quarter since its IPO.

LinkedIn seized on the voracious appetite for its stock by selling as many as 6.2 million shares for $223 apiece in its secondary offering this month. After expenses, LinkedIn will receive up to $1.35 billion, more than five times the amount the company raked in from its IPO.

Facebook's stock has rebounded, too. As soon as it began trading in May 2012, the stock took a turbulent descent triggered by the social network's slowing growth as well as doubts about the company's ability to figure out how to sell and show ads on mobile devices. By last September, Facebook's stock had lost more than half its value from its IPO price of $38.

The skepticism evaporated two months ago after Facebook's latest quarterly results showed that more than 40 percent of the company's ad sales are now being made on smartphones and tablets, up from virtually nothing at the same time last year. Facebook's stock hit a new high of $51.60 earlier this week.

Here's another sign that Wall Street is still treading more cautiously than it did during the dot-com boom: Although the bellwether Standard & Poor's 500 and closely watched Dow Jones industrial average both set records last month, the technology-driven Nasdaq composite index remains about 25 percent below its all-time high of 5,132.52 reached in March 2000.

Online travel service Priceline.com Inc. was among the biggest beneficiaries of late 1990s giddiness. Shortly after it went public in March 1999, Priceline's stock soared to a split-adjusted $990, even though the Norwalk, Conn. company had a history of uninterrupted of losses. Priceline has now established itself as a consistent moneymaker with profits of more than $4 billion during the past five-and-a-half years. The pattern of rising earnings helped lift Priceline's stock past $1,000 for the first time last month.

AOL co-founder Steve Case thinks the wild swings in Internet stocks are driven by rapid changes in technology and cultural tastes that make it difficult to gauge how big and profitable Internet companies will become. He still recalls the extreme fluctuations in AOL's stock from the time the company went public in 1992 with a market value of $70 million to its zenith of more than $160 billion some 13 years ago.

"It was a pretty choppy ride," Case says. "There were some years when people thought we were going to take over the world and the company's value reflected that belief. Then there were other years when people thought we were going to go out of business. This kind of thing goes with the territory."

Entrepreneur Marcus Nelson has noticed a dramatic change in investor sentiment over the past year as he tries to expand Addvocate, a San Francisco startup that is trying to help workers do a better job promoting their own companies on social networks.

Nelson couldn't find anyone interested in investing in his startup when he began pitching his idea to venture capitalists and technology moguls last year. He lost track of how often he had been shooed away after he was rejected 168 times. Finally, in June, Nelson was able to raise about $2.4 million. He believes he'll have little trouble getting more money if he needs it.

"It's a hot space again," Nelson says.

The good times are rippling through Silicon Valley and the rest of the San Francisco Bay area, where much of the economy revolves around the technology industry.

After dropping to as low as $290,000 in 2009, the median sales price of a Bay Area home rebounded to $540,000 through August, according to real estate research firm DataQuick. That's still 19 percent below the region's peak median price of $665,000 reached in July 2007.

In the Silicon Valley hub of Santa Clara County, companies added 8,500 jobs in August to mark the biggest one-month gain since 2000.

Meanwhile, Netflix Inc.'s stock price has increased nearly six-fold since last September, reaching a new high of $333.60 in Wednesday's trading. The surge has been building as the company's Internet video and DVD-by-mail service recovered from a 2011 customer backlash caused by dramatic price increases.

Yahoo Inc., one of the Internet's oldest and best-known companies, also has been on the comeback trail. After it was stuck below $20 for more than four years, Yahoo's stock has more than doubled since last September. While the company's July 2012 hiring of Marissa Mayer as its CEO played a role in the stock's run-up, the biggest factor was a fortuitous investment in rapidly growing Chinese Internet company Alibaba Group.

Yahoo reaped a $7.6 billion windfall by selling part of its Alibaba holdings last year to reduce its remaining stake to 24 percent. Now investors are betting Yahoo will hit an even bigger jackpot after Alibaba completes its own IPO, an event expected to occur next year.