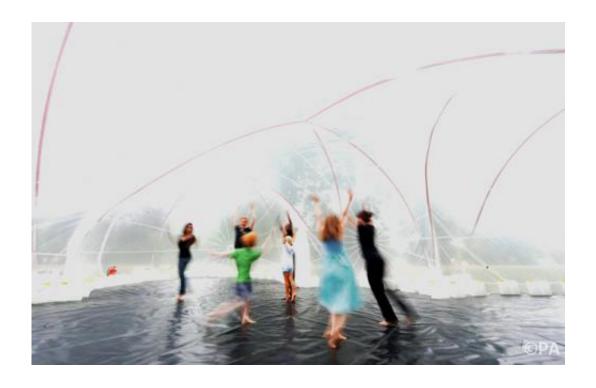


## It's no bubble: Insane dotcom valuations reveal how integral tech is to our lives

September 19 2014, by Gordon Fletcher



It's not a bubble when everyone's in it. Credit: Anthony Devlin/PA

A recent flurry of business mergers and acquisitions and stock market flotations in the US has prompted some financial commentators to predict a new tech bubble.

The size of these buyouts and IPOs, and the businesses themselves, are so large they are almost beyond comprehension. The recent announcements about Alibaba and Line have had financial analysts in



North America, Australia and Europe scratching their heads; the estimated values of their offerings are US\$20 billion and US\$10 billion respectively, for products that are relatively unknown beyond Asia.

Combined with a general lack of public knowledge about the biggest emerging techs and the various analyses by traders and advisers, the danger of a tech bubble bursting looks all too real. But a closer look would suggest a different, more continuous kind of boom.

## **Huge price tags**

Despite the rhetoric of <u>technology</u> commentators about how the internet <u>breaks down boundaries</u>, the prospect of an Asian business eclipsing the <u>stock market</u> listings of Facebook or Visa to become the biggest ever still seems daunting to some. But the potential is also enormous. Alibaba has <u>captured 80% of China's e-commerce market</u>, now larger even than that in the US, as well as 10% of all retail in China. But with only 40% of the Chinese population online, the potential for even further growth is very real.

At the same time, the portable virtual reality system Oculus Rift was bought by Facebook for US\$2 billion, even though the consumer release date <u>is still unclear</u> and will likely come with a price tag of around US\$500. This is a financially quantifiable step up from the original US\$2.5m raised through their original Kickstarter campaign, which originally had a <u>very modest US\$250,000 target</u>.

In a similar move the open-world, sandbox construction game Minecraft was bought by Microsoft for US\$2.5 billion. However, the deal does not bring with it key company personnel, including founder and original author Markus "Notch" Persson. He and the co-founders of the company will now pursue other projects.



The self-destructing video and image messaging app SnapChat has been valued at US\$10 billion. Despite the uncertain business model, the 700m images and videos the company claims it sends each day must offer some promise of a return, investors believe, despite the fact the service is free and without adverts.

## High is the new normal

Looking at these figures it is easy to push comparisons with the tech bubble of 1999 link to something here, claim over-valuation and the degree to which each of these individual listings and company purchases represent high levels of financial risk. But 14 years on from the dotcom crash the world has shifted significantly. The wreckage of individual dotcom failures is set against a technology-driven daily experience for an increasing many for whom "data is the new oil" (although even this claim has been disputed). It is claimed that e-commerce has reached sufficient scale and market penetration that it is killing off the high street.

In short, this is not 1999. We are part of a world that is internet-based and has been experiencing a technology boom since the dotcom crash. Proof of this different world can be seen with Facebook's listing on the NASDAQ in 2012 which was <u>initially criticised</u>, but at an estimated valuation of US\$184 billion can be seen now as a step in the company's step into becoming a permanent <u>tech behemoth</u>.

The threat of a new dotcom bubble does not come from the fact that these very large numbers are all attached to technology businesses. Technology should represent the point of reassurance. What is questionable are the business models that have developed around funding technology startups, with <a href="heavy use of equity funding">heavy use of equity funding</a>.

Even more concerning are the expectations of failure in the culture of



funding technology startups. Individual investors with limited resources, who can only afford to invest in one business, face making a difficult, best guess. For the equity funds seeking out the new Google – or a product that Google will later buy – investing in multiple startups can be compared to spread-betting to lower risk.

For those of us without access to large bundles of cash (that we are also prepared to lose) much of the excitement of supporting new technology can be gained through crowdfunding websites that offer the promise of something tangible at the end of the process. We do need the speculative market of technology startups to drive the development of new features on our phones, tablets and desktops. And for every individual failure, like a hydra, two more innovations will appear in the continuous boom of this digital era of data.

This story is published courtesy of The Conversation (under Creative Commons-Attribution/No derivatives).

Source: The Conversation

Citation: It's no bubble: Insane dotcom valuations reveal how integral tech is to our lives (2014, September 19) retrieved 27 April 2024 from <a href="https://phys.org/news/2014-09-insane-dotcom-valuations-reveal-tech.html">https://phys.org/news/2014-09-insane-dotcom-valuations-reveal-tech.html</a>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.